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12 JULY 1991



# ***JPRS Report***

# **China**

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### Rural Leadership Problems Viewed

91CM0406A Nanjing QUNZHONG [THE MASSES]  
in Chinese No 3, 5 Mar 91 p 29

[Article by Yan Yuhua (7346 3768 5478): "Problems and Strategies in Townships' Administrative Decision Making"; QUNZHONG is the official journal of the Jiangsu Provincial CPC Committee]

[Text] The work of administrative decision making in township people's governments involves understanding and implementing policies, considering many aspects extensively, and checking elements. Based on the information I collected in daily life, I found that township administrations had the following problems with the decision-making process:

First, official willfulness and decision making based on personal experience. This is a commonplace phenomenon. Some township cadres are fond of "having the final word." People depict such cadres as "patting their heads and a decision comes out" (knitting their brows and a strategy comes to mind), "patting their chests and making declarations" (vowing to be responsible for negative consequences), and "patting their behinds and walking away" (transferring to other offices after their decisions go awry). Some cadres draw sketches on impulse, and it becomes the location for a new residential area for the township. They stamp their feet somewhere, and that is the site for a new canal. They wave their hands, and a bridge will be built there. Because of one-sided decision making, losses that could otherwise have been avoided are often incurred.

Second, mechanical copying and blind imitation. Some township cadres are used to copying others' decisions and plans, considering it both energy-saving and secure. Such inertia, unwillingness to make an effort, and the way they blindly conform their psychological state without regard for practical conditions often leads to uniformity in townships' administrative decisions, and produces hasty and reckless mass action: if you start a certain kind of factory, I will follow suit. As a result, there will unavoidably be blind and redundant construction and low economic efficiency.

Third, eagerness for quick success and immediate benefits, and a fondness for the grandiose. Some township leaders always think of achieving great things within a short period in order to get promoted. Therefore, their decisions are often related to immediate and local interests, with no consideration of long-term or overall interests, or of social effects. Such decision making that is oriented toward the short-term brings about a lot of harm. It is not uncommon to see the abnormal phenomenon of "leadership transfers mean the start of another plan," which prevents economic and social programs from developing steadily.

Fourth, imperfect procedures and reckless action. Townships' administrative decision making has certain procedures. In reality, however, the decision-making process

in some townships is simply one where several township leaders give definitions and directions and a few "intellectuals" offer specific ideas. The process does not involve collecting opinions from subordinates or the masses, or submitting plans to higher levels for approval. Decisions are thus hastily implemented. Such a simplistic decision-making strategy inevitably lacks scientific character, popular support of the masses, and authority. Consequently, these decisions can hardly be fully implemented.

Fifth, coordination is lacking, and everyone goes his own direction. Townships' administrative decision making often intervenes with regard to existing territorial divisions over control. This is especially true for units under dual leadership, where the power over personnel, budget, and resources is in the hands of people from certain governmental departments. These people appear to be "ambassadors" from higher-level departments. They draw dividing lines between themselves and the township with regard to interests. Whenever township decisions involve the interests of those departments, the departments either refuse to carry out the decisions, or they comply with the decisions publicly but oppose them privately. They may even agree overtly, and then covertly turn in complaints to relevant government agencies. Township governments dare not offend such departments, because they often need help from these departments. Thus they are forced to make concessions by modifying previous decisions.

The above problems with townships' administrative decision making are detrimental to our work. We must pay attention to seeking solutions and improving the situation. As leaders of township governments, we understand that it is very significant to make the right decisions so as to achieve local economic and social development goals. We must start by serving the people, developing a sense of responsibility for sound decision making and a sense of crisis in our accountability for faulty decisions, and trying to increase scientificity in decision making. To this end, I believe we should adhere to the following:

1. We should study hard, unify our thoughts, and strengthen township cadres' awareness of decision making. The primary way is to study hard in order to raise our decision making level. We may set up workshops to train key township cadres, making administrative decision making a required course, so as to increase cadres' awareness. We should also put it on township governments' agendas in order to raise the level of decision making in actual activities.

2. We should depend on the masses to encourage democracy and to make sure that townships' administrative decisions are scientific. The heads of township governments must carry out the ideological strategy of seeking truth from facts, depend on the masses for democracy, and listen to opinions from all sides. They must strictly follow the procedure of investigating, designing, choosing among alternatives, selecting the best through



evaluation, inspection, and approval by superiors, and making certain that decisions agree with the will of the masses and local conditions.

3. We should have a whole contingent of people with specific assigned responsibilities, in order to raise the collective level of township decision making. Although township heads assume overall responsibility for decision making, it does not mean that only they have the final say. Therefore, we have to develop a group of consultants to get involved in decision making. The group may include people from departments of agriculture, irrigation, industry, transportation, recreation, education, public health, law enforcement, statistics, and investigation and research. These people should be provided with training on administrative management and decision-making strategies. We will strengthen investigation and research activities, give these people opportunities to perform, and increase the collective level of decision making.

4. We should carry on serious inspections and strengthen coordination in order to implement townships' administrative decisions. Once the scientific process of decision making takes shape, we should treat it with respect and carry it on in a continuous way. Decisions made this way must be implemented absolutely. We should set up strict inspection systems to supervise the implementation, posting clear rules on rewards and penalties, and award achievers and punish losers in the implementation of decisions. Cadres may be transferred, but administrative decisions must be carried out.

### **Living Conditions of Workers Under Capitalism (Part 2)**

91CM0376A Beijing ZHIBU SHENGHUO  
[PARTYBRANCH LIFE] in Chinese No 3, 5 Mar 91  
pp 29-30

[Article by Huang Meilai (7806 5019 0171): "Understanding the Living Conditions of the Working Class in Capitalist Countries (Part 2)"; part 1 was published in JPRS-CAR-91-027]

### **[Text] Capitalist Economic Development Deepens Poverty of the Working Class**

Entering the 1980's, even though the economies of Western countries had achieved relatively stable development, the problem of poverty continued worsening. Its characteristics follow:

First, the number of poor people has in fact gradually increased. According to an official U.S. announcement, in 1988 the poverty line for a four-person family was \$11,612. Based on this calculation, there were 32.5 million people living below the poverty line, accounting for 13.5 percent of the total population. Yet according to the estimates on social problems by U.S. specialists, the number of those living below the poverty line could reach 50 million, nearly one-fifth of the population. According to a report by the U.S. Budget and Policy

Priority Research Center released on 23 July 1990, the gap between rich and poor has widened over the last 10 years. The report stated that in the 1980's, the total income of the wealthy, who made up less than 1 percent of the U.S. population, equalled the total income of poor people, who made up 40 percent of the total population. According to statistics recently released by the EEC, the number of poor people in EEC member countries continues to increase. According to the statistics, the number of poor in the 12 EEC member states increased from a total of 38.44 million in 1975, to 44 million.

Second, structural poverty and the gap between rich and poor created by government measures have expanded. The Western press holds that socioeconomic inequality is one of the "legacies" of the Reagan administration. According to a 1989 report by the U.S. House of Representatives' Finance Committee, between 1973 and 1987 the average income of 20 percent of the poorest households fell by 11 percent, and 8 percent of these became even poorer. In contrast, 20 percent of the richest households saw their average incomes rise 24 percent, and 13 percent of them became even richer. The 2 percent of the U.S. population that is super-rich and powerful possess 60 percent of the corporate property. Millionaires, some 1.6 percent of the population, own 80 percent of corporate stocks. According to a report in the CHRISTIAN SCIENCE MONITOR, the 400 richest people in the United States own property valued at \$2.2 trillion, while the income of the average working person, after adjusting for the effects of inflation, is lower than at any time since 1966. U.S. labor unions believe that the traditional functions of labor unions have been greatly reduced and that this is an important factor intensifying the growing gap between rich and poor. In 1960, the amount of money earned by a business proprietor was 41 times that of a factory worker; by 1988 this figure had grown to 93.

Third, the problem of children living in poverty has become even more widespread and prominent. Poor children are a concept peculiar to the U.S. social system. The term refers to children in families with low or no income. They are the family members who suffer most. According to a survey on child poverty done over the last three years by Bain [Bei'en 6296 1869] and Elwood [Aierwude 1002 1422 0124 1795], two researchers at Harvard University, 20 percent of the children in the United States live below the official poverty line. A research report by the Protect the Children Foundation in Washington, D.C., indicates that in 1987 36 percent of families whose head of household was below 30 years of age lived below the poverty line. According to a two-year survey by 21 U.S. specialists, one-fourth of the 2 million children in New York City had no medical insurance and 60 percent of the children lived in families with straightened circumstances.

**"The Social Welfare System" is a Hypocritical System of Exploitation**

After World War II, each developed capitalist country commonly promoted a "social welfare system," which has to a certain degree improved workers' lives. In view of this, the Western capitalist class boast that their countries are "welfare states for all." Within these countries, those "consummate heroes" engaged in liberalization boast that this is "the socialist element within the capitalist system," and take this to be an argument that capitalism is developing into "social capitalism." Regarding the Americanization of capitalism, some say that developed countries "no longer have a proletarian class; it has become the middle class." How is one supposed to understand this issue?

Looking at the essence of the problem, "the social welfare system" is the redistribution of national income by capitalist countries, and it is a form of state-monopoly capitalism. Its intent is to assuage the contradictions between labor and capital and maintain the capitalist political and economic systems. It by no means enables the proletariat class to cast off its exploitation or poverty. Why is this? We believe that the "social welfare systems" of capitalist countries in fact can allow some poor and low-income families with many members to enjoy services and goods that exceeded their previous standard incomes. One may also say that each type of subsidy provided by the government does in reality increase these families' incomes. In 1982, approximately 36 million people in the United States obtained social welfare benefits in the form of cash payments from the U.S. government; the total amounted to \$156 billion. This no doubt could increase the income of some portion of the families, especially senior citizens and the disabled. However, where would this increase come from? In line with U.S. federal government regulations, workers and businesses each pay half of social security insurance taxes. Between 1937 and 1949 the tax rate was 2 percent of total wages. By 1978, the tax rate had risen to 13.1 percent. "Welfare" increased, and social security insurance taxes paid by workers also greatly increased. Businesses shoulder half the cost, and they still can deduct this from the value of labor and wages of the workers. Therefore, whatever they are given, the workers have paid for.

In sum, the money developed capitalist countries use for social welfare is all taken directly or indirectly from workers' wages. It is only a portion of the taxes paid by workers and other employees with higher incomes when they are employed, and used as relief when they are unemployed. Or it is a tax taken from those workers with higher incomes and used by another group of workers with lower incomes to reduce the gap in living standards between low-income employees and high-income employees. In talking about the capitalist class, this approach can have two types of results: first, it has the ability to temporarily mitigate social contradictions, and second, it has a tremendously corrosive and disintegrating effect on the struggle of the working class as it

strives for its own liberation. Therefore, the social welfare systems promoted by developed capitalist countries are a double-edged sword, and are exploitative systems that are ingenious, covert, and hypocritical. In the "Condition of the British Working Class," Engels thoroughly exposed the essence of capitalist social welfare systems. Engels said, "This [social welfare system] is like a sausage tossed back to the worker after the capitalist class has plundered a pair of hams from his body."

In the 1980's, the governments of Western countries successively promoted reforms of the so-called social security system, reforms which in essence reduced social security payments. Canada and the Federal Republic of Germany used the approach of restricting pensions to living expenses and adjusting wage increases. Austria, Denmark, and Italy raised the qualifications for disability pensions. A new law enacted in Britain in 1986 changed the way pensions were calculated, from averaging the 20 highest wage-earning years to averaging all the working years, thereby greatly reducing retirement pay. In 1983 the United States altered the senior citizen, inheritance, and disability annuity systems, and increased the retirement age, adding restrictions on qualifications for early retirement. A number of Western countries used an increase in the number of unemployed as a pretext for substantially reducing unemployment relief funds. For example, Germany decreased its unemployment insurance subsidy from an original figure of 68 percent of wages to 63 percent, while in the Netherlands it went from 80 down to 70 percent. Canada, Denmark, and the Netherlands also increased the qualifications for receiving unemployment relief.

At the same time that social security payments have been reduced, social security taxes have greatly increased. The result is that there has been a rapid increase in the number of poor families. For example, in the United States the number of people living below the poverty line increased rapidly, from 25.87 million people in 1975 to a peak of 35.26 million in 1983, an increase of 36 percent. Hence, the capitalist social welfare systems cannot improve workers' impoverished condition.

**Essays on Strengthening Marxist Literary Theory**

91CM0426A Beijing WENXUE PINGLUN  
[LITERARY REVIEW] in Chinese No 2, 15 Mar 91  
pp 5-16

[Five essays by Lu Guishan (7120 6311 1472) et al.: "The Issue of Advancing Marxist Literary Theory"; WENXUE PINGLUN is sponsored by the Literature Institute of the Chinese Academy of Social Sciences]

[Text] **Editorial Note:** *The advancement of Marxist literary theory is a big topic. Theory is the distillation and is also the precursor of practice. Marxist literary theory, which is based on dialectical materialism and historical materialism and is linked closely to literary and artistic practices, not only explains in-depth the general laws of*

*literature and art but also reveals the unique law and essence of revolutionary literature and art. Because of its close ties with modern literary and artistic practices, especially those of proletarian socialism, it is continuously being enriched and developed. Today, it plays an especially important role in guiding the healthy development of and bringing prosperity to China's socialist literature and art. Since we entered the modern era, our theoretical work has achieved many new breakthroughs and new developments. This we must confirm. But we are still faced with many problems, the most serious being the rejection and refutation of basic Marxist principles by some people. With regard to Marxist literary theory, we must first, uphold, and second, develop. We must reaffirm the basic principles of Marxist literary theory which have been refuted in recent years. Meanwhile, modern natural sciences and social sciences are continuously achieving new successes, and new phenomena continue to pop up in the literary and artistic world bringing to light new questions. When we advance Marxist literary theory, we must also give these facts adequate consideration. For this reason, it is not only a necessity but is also a major historical task this new era has thrust upon China's literary theoreticians to carry forward the good study style of integrating theory and practice and to launch broad and deep discussions of this issue, and in turn give impetus to the advancement of Marxist literary theory. In December 1990, WENXUE PINGLUN's editorial department hosted a forum on this matter and invited several of Beijing's experts in this field to attend. Beginning in this issue, we will have a special column on the speeches delivered at the forum. We welcome scholars and experts to take part in the discussions by submitting their articles.*

#### **Advance and Develop Marxist Literary Theory Amid Struggle and Practice—Lu Guishan**

In order to advance and develop Marxist literary theory, we must solve two major problems: One concerns Marxist literary theory's contemporary formation, and the other has to do with Marxist literary theory's Chinese characteristics. These two issues are linked to each other. We cannot ignore Marxist literary theory's Chinese characteristics in pursuit of its modern formation, nor can we neglect its modern formation in search of its Chinese characteristics. The only way we can advance and develop a scientific, modern, and characteristically Chinese Marxist literary theory is through struggle and practice.

Since the beginning of this new age, and especially since 1985, Western literary thought of all shapes and descriptions has inundated China. It has shaken up China's literary world, has upset our old theoretical patterns, and has also caused shocking ideological confusions. Marxist literary theory is facing a serious challenge. At the same time, however, we are given a good opportunity to advance and develop Marxist literary theory. Marxist literary theory can only be enriched, deepened, and perfected by comparing with, competing, and struggling against other kinds of literary ideas and concepts. We can say that there is probably no better time to advance

and develop Marxist literary theory, because the conflicts and problems of the literary world in China and worldwide have been clearly and fully exposed, and in the face of rich and novel literary ideas and diverse and complicated ideological materials, we can utilize a Marxist stand, viewpoint, and methodology to dialectically synthesize these ideas fully and comprehensively and come up with a theoretical summation that has a keen sense of the times. It is especially important that we pay attention to and sort out the major impact of humanism and neo-humanism on art and literature. We should make the relationship between literature and man the theme that runs through the study of literary ontology, theory of literary subjectivity, theory of literary value, literary formalism, irrationalism, and non-ideology. We should also clarify the theoretical rights and wrongs of these major literary issues, discard the errors and assimilate the valuable ideological elements, so as to enrich ourselves and remedy past errors and oversight. In my opinion, this is a major theoretical task, and naturally it expects the masses of theoreticians to come up with hefty treatises like Engel's *Anti-Durhring*. On the one hand, we should strip away and analyze incisively and in-depth all the wrong ideas and concepts; and on the other hand, we must explain fully, systematically, sternly, and yet magnificently the positive side of Marxist theories and principles and then integrate counter-arguments with arguments, put counter-argument against argument and vice versa, supplement counter-arguments with arguments, and bring out the best in both, make both more distinctive and clearcut, and make our theories more convincing. In the past, we often said, "without destruction there can be no construction." This is true, but we should also realize that without "construction," there can be no "destruction." Not "destroying" something is not a sufficient precondition for its "standing," and something that is not "standing" cannot basically be "destroyed." Only by solving the "construction" problem can we avoid those things that have been "destroyed" from being revived and making a comeback.

"Genuine knowledge comes from practice." We must have faith in the principle of historical materialism when we advance and develop Marxist literary theory. Correct literary concepts, theories, or ideological systems do not simply fall out of the sky, nor are they inherent in the minds of some brilliant theoreticians. Instead, they are the product of practice. I have always maintained that the advancement and development of a literary theory cannot be attributed to the logical evolution of the theory itself. As something that is conceptual, literary theory naturally has its own "law," its own relatively independent nature, but its advancement and development cannot be looked at as a process of self-propagation and self-multiplication. Ultimately, it is the summation and extraction of literary practices. Modern and characteristically Chinese Marxist literary theory is extracted and refined from modern and characteristically Chinese literary creations or literary practices and their corresponding literary concepts and literary thoughts. Thus,

we must put the relationship between the "source" and the "flow" of the advancement and development of Marxist literary theory in proper perspective and put the focal point and the core of our attention on, and study firmly on the foundation of literary practice. When we study the question of literary practice and literary creation from the perspective and the high point of advancing and developing Marxist literary theory, we should generally include the following aspects: (1) We should change the old-fashioned schoolhouse or seminary approach which separates creative practices from the laws of creativity. Instead, we should explore the laws of creativity concretely, profoundly, and effectively by linking them to creative practices and elevate a literary work's intrinsic meaning and creative experience to the level of creative theory. Only if we can formulate this kind of creative theory which is full of insight and which can master the laws of creativity can we provide genuine and effective guidance to practical literary creation. (2) We must grasp the issue of creative inclination, find out how different social, political, and cultural ideas infiltrate, constrain, and guide literary and artistic creations, critique and analyze precisely the political thoughts and inclinations expressed in creative and literary works, and examine and monitor such inclinations from a theoretical height in order to come up with scientific and convincing responses. Literary thoughts and literary creations always reflect one another and promote one another. Most literary thoughts are the distillation of literary creations, and literary creations often are the manifestations of these thoughts. Thus, as a conceptual formation, art and literature cannot be separated from their theoretical and work formations. It will be wrong to study literary creations apart from literary thoughts or to pursue literary thoughts away from literary creations. We must not underestimate the impact of Western social thoughts and literary ideas on today's literary creations. We must use theory to clarify these ideas and help literary creations flourish and develop in a healthy way. (3) We must seize the question of how to give creative practices a strong theoretical overtone. We must provide scientific Marxist answers to literary creation, literary ontology, subjectivity, the theory of value, literary creation's human nature, humanism, human attitude, and value concepts, etc. In particular, as new situations and new problems arise during socialist creative practices, we should try to uncover theories that have a rich sense of the times and which are full of vitality. We need to assimilate new ideological nutriment in order to advance and develop Marxist literary theory and come up with a fresh, earthshaking theoretical summation.

#### On Several of My Ideas—Lu Deshen

1. How do we evaluate the success and failure of literary theory since the new period? In my opinion we must first acknowledge that, like many other theories, literary theory has made great progress since we entered the new period. At the same time, however, we must admit that there are clear and dangerous problems. We can look at this from two different perspectives: First, in the early

days, we exposed and criticized the confused literary ideologies created by the gang of four during the Cultural Revolution. This is what was known as "bringing order out of chaos" and "thorough overhaul." From there, we took a step further to reflect on the "leftist" errors in literary guiding ideologies committed 17 years prior to the Cultural Revolution. It was a great success. But since when we fought against the "left," we failed to take precautions against the "right," as a result, we leaned too far to the right and purged some things that were actually correct. Second, during this period of time, we worked very hard to introduce and translate contemporary Western literature and theories, and within a short time, almost every Western literary theory and viewpoint that had come out in this century was brought into this country, changing the old situation in which most people knew little about modern Western literary thoughts. This played a positive role in broadening the people's horizons and opening up their minds. However, because many people were not careful and did not analyze and criticize these new ideas when they were first introduced, simply imitating everything and accepting everything, Western bourgeois literary and artistic concepts generated a very adverse effect on China's literary circles and among the young students. We cannot deny that bourgeois liberalization ideologies which flooded literary circles at one time was partly to be blamed for the above two mistakes. None of the basic viewpoints and basic principles of Marxist-Leninist literary concepts and Mao Zedong literary thought escaped criticism and rejection in recent years. People branded Marxist-Leninist literary viewpoint and Mao Zedong literary thought as "mechanism" and "determinism," "literary political science," and "vulgar sociology." This ideological trend peaked just before and after the disturbance of last year. It is still fresh in our minds.

2. Looking back at these last few years, we feel deeply that it was entirely correct for the Party Central Committee to call upon us to uphold the four basic principles and to uphold and develop Marxism-Leninism and Mao Zedong thought. Our's is a socialist country, and naturally it is correct for us to uphold the teachings of Marxism, and when it comes to art and literature, we must adhere to the guidance of Marxist-Leninist literary concepts and Mao Zedong's literary thought. Of course, as Comrade Deng Xiaoping pointed out, to uphold Marxism-Leninism and Mao Zedong thought is to uphold the basic principles of Marxism-Leninism and Mao Zedong thought as well as the scientific system made up of those basic principles. It does not mean upholding only certain theses and quotations found in some classical writers' works. Upholding and developing are a dialectical unity. Marxism-Leninism and Mao Zedong thought are inherently a continuously developing process. Our scientific attitude should be "to develop amid upholding and to uphold amid developing." At one time, some people suggested that "to uphold is not to develop; only developing is to uphold." This in reality is using the name of "development" to oppose upholding the basic principles of Marxism-Leninism and

Mao Zedong thought. These people even deny Marx's theory of surplus value and historical materialism. If this kind of "development" is not complete rejection of Marxism, what is it?

How do we develop Marxist-Leninist literary concepts and Mao Zedong's literary thought? I think this is a very important question. It links the basic principles of Marxist-Leninist literary concepts and Mao Zedong literary thought with China's ever-growing, rich socialist artistic and literary practices and with the experience of the world's literary development when we study new situations and solve new problems. This should be the most basic approach to developing a scientific Marxist literary theory. We have already made a good start here. For example, a newspaper recently began discussing the essential characteristics of socialist art and literature. This is a very important question being raised amid current literary developments. Some newspapers are planning to make socialist art and literature the major topic of study and discussion for next year. In addition, recently, there have been several forums to discuss dramatic creations and new national socialist operas and so on. The results of these discussions no doubt will enrich Marxist literary theory and will play a positive role in promoting the development of China's socialist literary undertakings.

3. After the struggle and setbacks at the frontline of literary thoughts in recent years, we have accumulated precious experiences in fighting "leftist" as well as "rightist" tendencies. In the future, we definitely will do a better job. We have learned not to fight the "left" by turning right, nor can we fight the "right" by turning left. Only by holding steadfastly to Marxist-Leninist literary concepts and Mao Zedong's literary thought can we fight both "left" and "right." We can continue to review and assimilate new experiences in literary practice and collect the new results of literature and science (including all that is valuable in modern Western bourgeois literature) in order to enrich ourselves. I believe that in the course of development of socialist literary undertakings, Marxist literary theory will also see important development.

#### Theory Is Always Historical Theory—Wu Yuanmai

Today, Marxist literary theory is being challenged from many directions. It is not only being challenged by society and the objective course of time, by the recent successes of philosophy, natural sciences, and social sciences, and by other 20th century literary theories and schools of thought, but it is also being challenged by changes and developments in literary creations and literary advancements themselves. This is inevitable, nor should we try to avoid it. In fact, looking at the history of development of Marxist literary theory over the last 100 years or more, it has been a process of constant self-readjustment, self-perfection, and self-development.

Here, I would like to talk about several of my personal thoughts about the relationship between Marxist literary theory and literary practice.

Since the beginning of this new literary age, we have had much success in introducing and assimilating the recent accomplishments of philosophy, natural science, and social science in bringing in and learning from various 20th century foreign theories, schools of thought, and books, and in introducing and criticizing various 20th century foreign literary thoughts and literary schools. Although some problems still remain to be solved, the work we have tried to accomplish is very important. But compared to these, I feel that we in literary circles have not paid enough attention to or showed sufficient concern for the new problems and new experiences in the area of literary creation and have not tried to link literature and art to reality (in China and abroad). We still have the tendency to go from theory to theory and use doctrine to explain doctrine. I am not against using literary theories to explore and formulate different literary ontologies, different literary theories on value, different literary methodologies, and different theories on literary symbolism. No doubt, this kind of exploration and formulation is necessary and is a complicated and urgent task Marxist literary theory is faced with. It is also something we must continue to work on. I am only saying that we should not forget to pay attention to and show concern for the practice of modern world literary creation that is so vivid and so rich, and we must not think that it is something we should leave to the literary critics. If Marxist literary theory fails to answer the new questions raised in the literary process and fails to sum up and review the new experiences gathered in literary creation, it too will not see any development. This is the weak link in today's study of Marxist literary theory.

Theory always refers to historical theory, to theory that relates to practice. To quote Chernyshevsky's words in *On Aristotle's 'Poetics'*, "History without incidents is theory without substance." I think this applies to Marxist literary theory too. Everybody knows that classical Marxist writers have always shown special concern for and paid close attention to the literary creations and literary process of their times and have always tried to answer the new questions being raised and give theoretical review and summations in a timely fashion, so as to promote the further development of literary creations and literary progress.

If Engels had not read and studied Balzac's *La Comedie Humaine*, if the works of Dickens and the Bronte sisters and other realist writers had never been written, it would be difficult to imagine that Engels could have come up with such a famous thesis as "typical nature in a typical environment." Before his time, Lotze, Diderot, Hegel and others had produced many brilliant and still-admired expositions on the theory of typicality, but none could measure up to Engel's thesis. We cannot say, and I am sure everyone would agree with me, that this is because the others were not as smart or as well-educated as Engels. Rather, it is because back in their time, works

by Balzac and others had not been available. The reason Engels was able to carry forward and forge ahead into the future with the theory of typicality was his ability to incorporate the literary practices of his era and his superb summation of the new experiences and new laws of literature and art.

As another example, Lenin had a familiar and often-quoted saying, "If we meet a truly great artist, we will find that his work at least reflects some of the essence of the revolution." If Lenin had not read or studied Lyev Tolstoy's creations—talented and complicated works rarely found in world literary history—he could not have drawn a conclusion so farsighted and brilliant, so full of confidence, and of such universal significance as expressed in the article "Lyeve Tolstoy Is the Mirror of the Russian Revolution."

This makes us realize that one of the major and most important aspects of the formation and development of Marxist literary theory and its eternal vitality is its close ties to the vivid and rich literary practice and literary process. This is my first point.

Secondly, as life changes and develops, and as literary practice and literary processes change and develop, Marxist literary theory is duty-bound and is charged with the historical responsibility to adjust and keep up with these changes and developments; it should not stay put and refuse to move forward. As Chernyshevski said, all systems must "change as the opinions of the times which gave birth to those systems change."

Upon reading Ferdinand Lassalle's play, *Franz Von Sickingen*, Engels wrote a letter to the playwright saying, "The way people of the old days used to illustrate characters is no longer adequate today. I suggest that it will not hurt you to pay a little bit more attention to the role of Shakespeare in the history of development of drama." The way writers of ancient Greek and Roman tragedies (especially Aeschylus and Sophocles) described the characters in the plays of their times was not only workable but also very brilliant. The problem is, thousands of years have gone by since the days of the writers of ancient Greek and Roman tragedies, and human character has changed and has become fuller over time, and there are more conflicts and contradictions in society today. Shakespeare's character depiction was a world-renowned success, but Lassalle ignored it and chose to emulate "the way ancient people portrayed human character." This obviously was out of touch with the times. That is why it was not strange, and it was in fact entirely proper for Engels to criticize the method and principle of Lassalle's character depiction. It is fair to say that to ignore the times and the change and development of literary practice and treat traditional literary experience as absolute is like cutting off the toes to fit the shoes, like getting into the "procrustean bed." It can only lead literary development into a dead-end street.

Take 20th century realism for example. Compared to 19th century realism, it not only contains new substance, new tendency, and new characteristics, but it is also constantly changing and enriching its own form. As Belinsky said, "If there is an idea of the times, there will be a form of the times." Lenin too pointed out, "With the discoveries of each period, even in the realm of natural sciences (not to mention human history), materialism must change its own form." I think both Belinsky's and Lenin's ideas can be applied to realist poetics. Facts prove that 20th century realism has created, developed, and absorbed different forms of expression and artistic methods based on the traditions of 19th century realist poetics, such as direct and indirect soliloquy, montage, stream of consciousness, temporal and spatial inversion, reversed sequences, plot within plot, clues, farce, abstraction, cubism, and fairy tales. Take Brecht's *The Good Woman of Setzuan* and *The Caucasian Chalk Circle*; Bulgakov's "Heart of a Dog" and "The Master and Margarita"; Paul Eluard's *Liberty*; Mayakovsky's *About This*; Garcia Marquez's *One Hundred Years of Solitude*; and Aytmatov's *A Day Is Longer Than a Century* for example. By old realism's definition of "using life's own pattern to reflect life," or if we use Balzac's and Lyev Tolstoy's creations as standard, we can hardly classify these works of 20th century realism that use diverse forms and different techniques as works of realism. The fact of the matter is, this is not because realist poetics have become non-realist but because realist poetics have become fuller in meaning and have developed under new historical conditions. In the 1930's, amid the heated debates on realism, Brecht suggested "broadening and diversifying the realist technique of writing." In the 1960's, amid the heated debates on realism, Aragon came up with "open realism." (Here I am not talking about Jialuodi's [0502 5012 4574] "boundless realism," because I think this term is incorrect. However, the enthusiasm he displayed in his book which bears the same title still cannot be ignored.) These and other people's attempts to study and probe into the subject are most enlightening, and we should be aware of and pay attention to them. Of course, within the scope of 20th century literary creation and literary process, realism is by far not the only question which requires Marxist literary theory to come up with a new answer. There are many similar questions. We will not go into them individually here.

In short, if Marxist literary theory is not incorporated into the literary practices and literary processes of the times, if it fails to discover, explore, sum up, and review all the new problems, new experiences, and new laws of modern world literature, it will not be able to develop.

#### Hold Steadfast To the Direction of Marxist Methodology—Tu Tu

To integrate the successes and failures of the development of literary theory in the new era and do an even better job in establishing a scientific Marxist school of aesthetics and art and literature, I think the most important thing is to hold steadfast to the direction of Marxist

methodology. Marxist materialistic dialectics and materialist conception of history are the unification and integration of scientific world outlook and correct methodology and are also the guiding ideology of all true sciences, including aesthetics and art and literature. If we intentionally or unintentionally change or stray from this basic direction, we will land literary and artistic theories in trouble.

A few years ago, there was a so-called "methodology craze" in China. People held heated discussions on the proper approach to aesthetics and literary theories. At the same time, they also laid bare the basic viewpoints and evolutionary processes of the many different schools of methodology. I do not deny that that round of heated debates on methodology had many merits and produced some positive results. Perhaps, in a certain sense, given the international macroclimate and domestic microclimate, it was one of the issues that was bound to appear in the ideological front and theoretical front sooner or later. It is absolutely necessary for us to sort out the rights and wrongs in this area and to straighten out some of the confusions.

But it must be pointed out that in the earlier methodology debates, there was a handful of "elites" who claimed to be "authorities on theories" who pointed their spearheads at the basic principles of Marxism from the very start and tried to weaken, shake, and refute Marxist aesthetics and school of art and literature. Today, it has become all too clear. They obviously had an ulterior motive in bringing up this so called "methodology issue." Using the kind of "street sweeper" language they used, their mission was "not to advance themselves but to disrupt and disturb the accepted order in academic circles, so as to cause some people to doubt and even scorn traditional authority." Thus, this so called "avant-garde school" of "new wave literature" felt that it was "beneath them" to have to "advance" any kind of truly scientific study method; instead, they were more into creating mass disturbances and willfully demeaning the kind of literary theory and literary thought which was guided by Marxism-Leninism and Mao Zedong thought. They distorted such thought into something totally unworthy, and then they replaced it with something called "aesthetic thinking" which they put together from broken pieces they had picked up from the junk pile of Western thoughts. If most people of good intention had been uncertain about the nature of this debate at the time the "methodology craze" first began, the motive should have become abundantly clear to them as events developed.

Conversely, this reminds us not to overlook the importance of methodology itself. In fact, some advanced thinkers before the times of Marxism had already realized this point. For example, Chernyshevski, a 19th century advocate of democracy during the Russian Revolution, said on more than one occasion, "Aesthetic concept is different only because the philosophical basis of the whole method of thinking is different. This also demonstrates the cruelty of the struggle. It would not

have been this cruel if it had been just a matter of difference in the understanding of pure aesthetics. Moreover, in essence, rather than say that both our opponents and us are interested in pure aesthetics, it is more appropriate to say that we are concerned about social development. In this respect, literature is especially important to our opponents. They treat literature as a mighty force that can influence the development of our social life. To both sides, the issue of aesthetics is no more than a battleground, and the object of the struggle is to exert some general influence on the people's intellectual life." (*Selected Works of Chernyshevski*, vol 1, p 167) An outstanding aestheticist and writer, Chernyshevski's exposition of the true nature of the struggle on the aesthetic and literary fronts and his unmasking of the true identity of "pure aesthetics" is still profound and brilliant by today's standard.

Generally speaking, there are three levels of scientific methods, depending on the degree of generalization and the scope of applicability: Specific, unique, and specialized scientific method; ordinary scientific research method; the most universal and highest form of philosophical method. Materialist dialectics and conception of history which are components of Marxism belong to this highest level, most universal method which can be used in the study of all natural sciences, social sciences, and the science of thinking. It is more general and can be used in more fields than any other scientific method. It is also the guiding ideology and the principle behind all other study methods. In a discussion that focuses on methodologies, there will be little argument over specific, low-level, unique scientific methods, because it is often just a matter of choosing or using a preferred method. Even for the ordinary scientific research method which is of a higher level—for example, with respect to the theory of information, the theory of control, and theory of system—although sometimes there can be clear disagreements, the scope and intensity are still limited. Only when we move the antenna to the highest level, the level of universal, guiding philosophical methodology—and at the end we often must go deeper and higher to reach this highest level, just as deeply as Chernyshevski felt about this—did the struggle become unusually intense and "cruel." This is because this is exactly the focal point and the finishing point of the issue. In the methodology debates of a few years ago, some people obviously had not the slightest idea about what modern scientific method was, and they made a lot of noise and drummed up one "new method" after another. Their intention was to overthrow and reject the role of philosophical methodology, especially the role of Marxist methodology in setting our direction. Toward the end of the last century, in his struggle against theoreticians of the national purist faction who pretended to be "friends of the people," Lenin made it very clear that the principles of Marxist methodology were "the greatest achievement of scientific thoughts." He targeted the bunch of national purist thinkers headed by Mikhailovski who tightly embraced the method of "subjective socialism" and pointed out that Marxist material



dialectics and conception of history, which are diametrically opposite to idealism and metaphysics, made it possible for scientific sociology to appear for the first time and made it possible for us to truly and correctly understand and analyze all complicated historical and social phenomena scientifically. Lenin pointed out that Marxism is not an abstract argument which cannot go outside of an ordinary society or beyond an ordinary stage of development, nor does it start out with the intention of "satisfying certain needs of human nature." Rather, it studies the objective and real phenomena and synthesizes and analyzes those phenomena in order to uncover the innate laws within them. All social phenomena are highly complicated. Some are primary phenomena; some are secondary phenomena, and meanwhile there are all shapes and descriptions of false impressions. In a variegated, fast-changing real world and human society, past idealist and metaphysical social scientists, including the "subjective sociology" thinkers, were never able to separate the source from the stream, the fundamental from the incidental, and the primary from the secondary, and they inevitably ended up losing their bearing in a maze. But Marx's "method separates the economic domain from society's other domains and separates the production relationships from society's other relationships and treats them as the most primitive relationships that decide all other relationships." (*Selected Works of Lenin* Vol 1, p 6) Many difficult problems and sticky points can be resolved if we apply this basic concept and method to analyze all complicated socio-historical events and phenomena, including literature and art.

For example, the question of what to make of the innate quality and nature of literature and art has been answered by numerous Chinese and foreign thinkers over the last 2,000 years or so. Some say that art is an "imitation of nature"; some say it is "the manifestation of the absolute ideal"; some even say that it is "subjective self-expression," "intuition of images," "emotional experience," "form with a purpose," "a game of freedom" and so on. As for the mutant and perverted theories and schools of thought derived and split from these ideas, they are more numerous than can be named here. We cannot deny that to a certain extent, the schools and concepts cited above do explain the meaning of art in their individual, partial, specific, and rational ways; some can even be called "ingenious conjectures." But it cannot be disputed that none of them can scientifically and fully explain what art and literature really are. Putting aside the many artistic facts and practices which prove again and again that these theories are inept, and looking just at these doctrine's own arguments and testimonies, there are many contradictions and loopholes. Why? The key of keys lies in their foothold, their departure point, and the focal point, which are all one-sided from the outset. Without Marxist world outlook and methodology, people inevitably will be lost as just described.

According to the Marxist viewpoint, social phenomena and spiritual activities like art and literature cannot be

explained and do not have extended meanings of their own. Only by exploring and studying them in the context of the whole socio-historical relationship, the materialistic social relationship, and in a context where they can be compared and contrasted with other social events and phenomena can we discover their true nature and characteristics. As an aesthetic ideology, literature and art are founded on a materialistic relationship which is "independent of man's will and consciousness," and we can use materialistic relationships to explain their ultimate reason; only then will they become a social ideology and superstructure which we can "hang high up in the sky." This does not mean that all components or elements of a specific piece of work of art or literature must, like a holographic picture, have all the characteristics of a superstructure or ideology, but it does take art and literature as a whole to be a social phenomenon and spiritual activity and points out their most important rule, so that we can separate them from other social phenomena and spiritual activities and take a further step to clarify their role, significance, and effect on social history. To conclude that the Marxist ideological school of thought is "partial," "flawed," and "full of loopholes" based on only a particular piece of work which may contain "abnormal ideological factors" and to further suggest "taking the ideology out of literature and art" not only runs counter to Marxist scientific methodology but also violates symbolic logic's law of inference.

Let us take the so called "internal law" of literature and art which was fairly popular not long ago as another example. The intention of those who concocted the idea (or strictly speaking, they only put the idea to use) was obvious. In the early 1940's, two U.S. professors of comparative literature, Rene Wellek and Austin Warren, co-authored a book entitled, *Theory of Literature*. This book has four volumes, the third and fourth of which are entitled *External Study of Literature* and *Internal Study of Literature* respectively. According to the authors, "literature and biography," "literature and psychology," "literature and sociology," and "literature and other forms of art" fall into the category of "external study of literature," while "the form of existence of a literary work," "tonal pattern, rhyme scheme, and poetic composition," "literary style and the study of literary style," "imagery, metaphor, symbolism, and fable," "the nature and pattern of narrative-type fiction," "literary classification," "literary evaluation," and "literary history" and so on are all classified as "internal study of literature." The authors of *Theory of Literature* were theoreticians of the "new criticism" school. The so-called "new criticism" school is new only relative to the old methods of criticism which looked at literature in terms of social history, psychology, and philosophy and so on. An earlier representative of this school was T.S. Eliot who vigorously advocated that literature is a unique language form and the purpose of literary criticism is to analyze the semantics of the work—the work itself is the highest form of existence. Although this school of thought was very much influenced by formalism, Eliot himself was not



only a critic who advocated "mechanical formalism" but was also a poet of the formalist school, which relied on this theory as its compass. The way *Theory of Literature* is structured clearly shows that the so called "internal study of literature" is but a way of making an independent analysis of different forms and elements of literary works, and there is no clear line of demarcation between "internal law" and "external law." Ordinarily, law refers to things that are objective and real or to the inherent and inevitable association and relationship between objective things, phenomena of things, or attributes of things. Such association or relationship exists objectively, and there are only two kinds of laws—universal and unique—and there is no such thing as internal or external law. Those who concocted the terms "external law" and "internal law" deliberately separated the two just so they could say that Marxism's revelation of the nature of art and literature, its conclusion that art and literature are unique superstructure and ideology, and what it says about the relationship between art and life, art and people, and art and other social ideologies are all but "external studies" which do not qualify as "internal studies," and they went on to suggest that this kind of study is far less important than "the study of literature's intrinsic aesthetic characteristics and the relationship between literature's various internal elements." Obviously, to advocate and promote the shift "from external to internal" literary study is but an attempt to use formalist method of literary criticism to substitute for or replace materialist conception of history and materialist dialectics.

Other disputes over such matters as "rewriting literary history," "the ontology of literature," and how to treat modernist art and literature and socialist art and literature all have to do with the understanding and assessment of the Marxist world outlook and methodology. Looking back at the torturous path China's art and literature took over the last decade since we entered the new period, naturally we have accumulated much experience and learned many lessons, and there are many complicated reasons behind this torturous course, but the most important point in my opinion is that we must hold steadfast to the direction of Marxist methodology and never forget the guiding role of materialist dialectics and historical materialism; otherwise, idealism and metaphysics will run amok and various corrupt and decadent bourgeois and feudal ideas will take advantage of our weakness. This I am afraid is also an objective law which is independent of man's subjective will or wishes. Engels pointed out a long time ago that "No matter what the natural scientists may think, they are governed by philosophy. The only questions is, do they want to be governed by some fashionable but bad philosophy, or do they want to be governed by a theoretical thinking which is founded on the history and the success of proficient thinking?" (*Selected Works of Marx and Engels* Vol 3, p 533) Indeed, whether the scientists realize it or not, they are always guided by specific theoretical thoughts when they explore theories and perform scientific research. Marxist world outlook, epistemology, and methodology

represent the most vivid crystallization of "theoretical thought which is based on the history and success of proficient thinking." It is the truly systematic, perfect, and scientific theoretical foundation of all sciences, including aesthetics and literature and art. Both history and reality have proven this truth to us. To advance and develop Marxist literary theory, we must not stray from this theoretical foundation for a moment.

#### A Very Necessary Discussion—Wang Shanzhong

WENXUE PINGLUN's editorial department's sponsoring of this symposium is both very important and timely. It is indeed very important and worthwhile to explore the issue of advancing the scientific Marxist literary theory. The purpose of reviewing past successes and failures is for the sake of future development. Advancing Marxist literary theory not only has to do with the nature and the prospects of literary creation but also concerns the construction and development of socialist spiritual civilization.

Since the founding of New China, because of the change in economic base and political nature, inevitably, there has been a change in the essence of our ideologies. The establishment and development of literature, a form of social ideology, and its theories, must be based on and must start out from Marxist thought. This should be self-evident. It is fair to say that for 40 years, the overall ideological direction in the literary domain has abided by Marxism. Whether in creative work or in theory, we have had definite success. This basic fact cannot be ignored. Of course, we cannot deny that during this period, we have also walked down some crooked alleys, forked roads, and even dead-end streets when it comes to the advancement of Marxist literary theory.

In the early 1950's, most of us came to understand Marxist literary theories through the writings, teaching materials, and academic works of Soviet scholars. It is fair to say that we had no other choice at that time. Although we continued to translate and publish some of the letters and essays on art and literature by Marx, Engels, and Lenin, what we came into contact with were mainly the Soviet scholars' theories and expositions about the classics. Looking back, their explanations did indeed show real knowledge and insight, and they had many new ideas, but they were also flawed because of simplistic explanations, erroneous development, and one-sided understanding. Under the conditions back then, for different reasons—such as, objectively, we failed to keep up with the translation of the classics, and people could not read more of the original works to get the gist and the essence; and subjectively, we were unable to rid ourselves of the childish leftist sentiments caused by the revolutionary fervor in the early days of liberation—we could not or did not feel free to seek truth from facts in a scientific way and put the Soviet's presentation and experience in proper perspective. Subsequently, although it was suggested that we needed a Marxist literary theory with Chinese characteristics, and indeed

many comrades explored the idea and wrote some theories and teaching materials on the reality of China's literary creation, because of one political movement after another, this kind of probing went no further. In short, in the 17 years before the "Cultural Revolution," we had only begun to understand certain aspects of Marx's literary theory. Other theoretical issues were brought up, and we were aware of them, but we never had the time to go beyond what we had learned.

Strictly speaking, during the "Cultural Revolution," we not only made no progress in studying any real Marxist literary theory but we actually unlearned some of the basics. The development of literary theory should be linked to the rich and diverse activities of practical literary creation. But the literary field at that time was homogeneous, monochromed, and simplistic. In evaluating Lassalle's play *Franz Von Sickingen*, Marx clearly pointed out that the playwright must become "more Shakespearean" and avoid "Schiller's" flaw. "More Shakespearean" refers to the "perfect harmony between an animated story and an elaborate plot" in Shakespeare's plays; "Schiller's flaw" refers to the tendency "to turn man simply into a mouthpiece of the spirit of the times." This is what Engels meant when he said, "We should not forget the realistic things because of conceptual things, forget Shakespeare because of Schiller." Possibly, the majority of the works that came out during the Cultural Revolution (even some of the works before the Cultural Revolution), to different degrees, were contrary to Marx's and Engels' brilliant ideas about literary creation. Do you think the so called "three highlight" theory—where every hero must be portrayed as "tall, big, and perfect"—which turned creative works into conceptual, unrealistic "simple mouthpieces of the spirit of the times" could really be an extension of and supplement to Marxist literary theory?

Since the Third Plenary Session of the 11th Party Central Committee, the spirit of socialist reform and opening up has gradually penetrated various aspects of our social life, and literature and art are no exception. Looking back at the literary situation in the last 10 years or so, although we have had some clear successes, the advancement of Marxist literary theory has not been smooth sailing. During this time, because of certain mistakes in guidance made by individual leaders, bourgeois liberalization thinking has been rampant. Bourgeois ideas and value outlook have flooded our ideological and cultural fronts. Marxist literary theory has come under attack and is being challenged. In my view, this attack and challenge is two-pronged. First, some people use developing Marxism as excuse to advance their scheme to refute the basic principles of Marxism. For example, they say "uphold is not develop. Only development is uphold." This viewpoint that separates uphold from development in itself is contrary to dialectics. To uphold and develop Marxism is one and the same and should not be separated. Only the kind of development which is founded on upholding the basic principles of Marxism is true Marxism. If we abandon

this Marxist point of departure and world outlook, what we develop can only be non-Marxism. Such and such theories and such and such schools of thought that appeared a few years ago and which were crowned "Marxist" are a concrete example. If we examine these so called "developed" theories carefully, we will discover that there is nothing new about them and that what these theories stand on is not Marxism. The authors of these theories usually are repeating the viewpoints and theories of the non-Marxist sects we seldom heard about in the past. Amid the clamor against Marxism, there is also the argument that Marxism is "antiquated." People maintain that Marxism is a 19th century product; it is no longer valid. But have these people ever considered what period the humanitarianism and humanism which they worship are the products of? Thus, whether a theory is "antiquated" or not cannot be measured entirely by time; we must consider its scientific nature and its innate value. Otherwise, we will have no fine cultural tradition to inherit. Of course, the key here lies in what philosophical viewpoints we use as standard to assess a school of thought or a theory. Practice proves that Marxism is the most scientific school of thought. Some people feel that since they are unable to refute Marxism and cannot justify their claim that Marxism is antiquated, they must present the absurd theory that Marxism is but one of a hundred schools of thought, one among many theories. This is absurd, because these people have forgotten that China is a socialist country guided by Marxism-Leninism and Mao Zedong thought. Of course Marxism is a developing, open, and not an ossified and conservative school of thought. It should and can assimilate and learn from the advanced and beneficial elements of all non-Marxist schools of thought. But its important role in our society is firmly established. It has no equal among other non-Marxist theories. When it comes to the attitude toward Marxist literary theory, the situation is similar. Some people suggest that Marxist art and literature was developed and consolidated by later generations, that Marx and Engel had no intention of studying art and literature when they were alive. Others maintain that Marxist literary and artistic concepts are based arbitrarily on three of Marx's letters. Even others suggest that Marxist literary theory is antiquated and that we should use literary pluralization to replace the monistic Marxist literary theory. These are issues which must be promptly sorted out, analyzed, and refuted. Second, some people make opening up to the outside world as an excuse, and ignoring China's real situation they abandon the socialist ideologies to blindly, indiscriminately, and without offering any criticism recommend and lavish praises on some non-Marxist literary sects and theories (such as Freudianism, existentialism, the school of new criticism, the phenomenal school, psychoanalytical criticism, structuralism, and symbolism). They assert that these are "literature for the sake of literature," the true theories that give expression to the individuals and to man's inner world. No wonder some people say, "on the banner of art which we raise up high we can proudly write the eye-catching slogan, 'art for art's sake'." All at once, the newspapers and other publications are full of

stories about them, and there is no outlet for articles that publicize and explore Marxist literary theory. If this abnormality is not corrected promptly, the socialist literary front will be taken over by non-Marxist ideologies. This not only will not promote the construction of the Marxist spiritual civilization but will jeopardize the future and the fate of socialist literature. Fortunately, since the Fourth Plenary Session of the 13th Party Central Committee, the new leading group in the Party Central Committee has reviewed in-depth our past experiences and lessons and has corrected the errors in ideological education and has paid serious attention to and stressed the teaching and learning of Marxist theories.

In the last two years, although there has been some improvement in the abnormal situation in the literary and art worlds, we must not be complacent, because the advancement of Marxist literary theory remains a very arduous task. On the one hand, we must continue to contend with the many shapes and descriptions of non-Marxist literary theories. In these contentions, we not only have to fully display the revolutionary and scientific nature of Marxism, we must also assimilate as much as possible the reasonable and beneficial elements of the opposite side in order to continue to amplify and enrich ourselves. On the other hand, there is the issue of advancing the system of Marxist literary theory. Marxist classical writers have left us their artistic and aesthetic spiritual wealth and scientific world outlook and methodology. These set the direction of construction and development of Marxist literary theory for us. In the wake of social development and scientific and technological progress, the study of literature will expand and the contents will become more meaningful. Some people have already tried to explore certain traditional topics of literary study (such as the nature and characteristics of literature, the relationship between literature and real life, creative methods, and the role of literature) from different angles and with different approaches. There is nothing wrong with these attempts. But I feel that the advancement of Marxist literary theory is not a matter of which approach (such as mathematical, systematic, psychological, or symbolic) we should use to study literature; rather, it should be something complete and fundamental. In other words, we should explore such things as the components, the core content, and the relationship between different aspects of Marxist literary theory according to the laws of Chinese and foreign, ancient and contemporary literary practices and activities, especially by incorporating the characteristics of literary creations of socialist nature and of the socialist period. Of course, this is not something we can accomplish overnight, but nevertheless we should work at it, because we have already met the preliminary conditions for carrying out this task. For example, we have a fairly complete and well-translated set of writings by classical Marxist writers; our socialist system guarantees complete freedom in learning and studying Marxism; our standard of Marxist theory has been raised, and adding to that, we

have the history and experience of proletarian revolutionary art and literature in China and abroad and 40 years of experience, setbacks, and lessons in literary activities (creation, theory, and appreciation). A few years ago, WENXUE PINGLUN set up a special column entitled "On Developing Marxist Literary Theory," but it was a minor column, and some of the articles planted their foothold on theories which could hardly be described as Marxist, and of course we could not let them use the name of "development" to hide the fact that they were trying to refute Marxism. For this reason, this column needs to be strengthened purposefully and systematically, so that it truly plays a positive role in advancing Marxist literary theory.

### Mao's Yan'an Art Talks Applicable Today

HK2606152591 Beijing QIUSHI in Chinese No 10,  
16 May 91 pp 27-28

[Article by Meng Weizai (1322 0251 0762): "Keep the Starting Point Firmly in Mind, Have a Clear Objective—Marking the 49th Anniversary of the Publication of Comrade Mao Zedong's Talk at Yan'an Forum on Literature and Art"]

[Text] We celebrate the 49th anniversary of the publication of Comrade Mao Zedong's Talk At the Yan'an Forum on Literature and Art. This commemoration is not just a formality. This is held because we feel that the principles stated by Comrade Mao Zedong at the talk are still meaningful, and these principles continue to have a lasting effect on our work. There are many things we can learn from the talk. The most important thing, I believe, is the intention and objective of the talk. Once we understand this, we will have no problem in understanding the rest of the talk.

What did the Yan'an Forum on Literature and Art intend to do? Comrade Zedong said: "We are Marxists. Being Marxists means instead of interpreting problems with abstract definitions, we look at objective facts and analyze them. From these facts we look for guidelines, policies, and solutions." We look at problems with a realistic viewpoint, seek truth from facts, and figure out final solutions. This is the Marxist world outlook and methodology, and this is the difference between Marxism and dogmatism.

Today we study and commemorate the talk. We must learn how socialist literature and art flourish and develop, and we should also study the talk. Our society is growing, and the situation is changing. We must observe the objective situation of development and changes and study the reality of our society, before we find solutions for today's problems. If we can do so, we can say we truly understand the talk.

We must learn from our historical experiences. Since the talk was published, we had had successes in the literature and art field, and we had had failures. We should draw a lesson from two particularly bad experiences. One is the Cultural Revolution. During that time many literary and

art works that represented the best of human civilization and culture were denounced as "feudalist, capitalist, and revisionist." Another time we should take note was when bourgeois liberalist ideology was allowed to rampage. During that time, works that were pornographic, cheap, politically incorrect, and even reactionary were allowed to propagate and spread. These works have severely poisoned the minds of our younger generation. Naturally, the literature and art field has been seriously damaged as well. We can use many different angles to analyze and study these two negative experiences. But, judging from the nature of these two experiences, we might conclude that they happened because some people went against the national condition of China; they forgot or deviated from the basic direction of socialist literature and art. We should take heart not to repeat these two—one "leftist," one rightist—mistakes, keep our vigilance, and work hard for literature and art.

It has been proven to us that the key to victory and success is correct intention. We now live in a new stage, in a period after the socialist revolution. The party and state must shift their focus to building the economy. Therefore, it is necessary for the party center to consider the development and changes of the objective reality and readjust the policies concerning literature and art. They have to make essential and proper adjustment and implement new measures. This is where the guideline of "letting a hundred flowers bloom and a hundred schools of thoughts contend" and the direction of making socialist literature and art "serve the people and serve socialism" come in. The readjustment does not betray the spirit of the talk. In his talk, Chairman Mao emphasized that to study problems we must "first start from studying the objective existence of problems and analyze facts. From these facts we decide our guidelines and policies, and find solutions." When discussing art and literary criticism, Chairman Mao also pointed out: "We oppose any abstract and absolute political standard. We also oppose any abstract and absolute artistic standard." This is why we say that in readjusting policies we continue the basic principles of the talk as well as expand the basic ideology of the talk. This is the proper way to develop and realize Mao Zedong ideology of literature and art in this new historical stage.

Regarding the objective of the Yan'an Forum on Literature and Art, Comrade Mao Zedong explained this clearly at the beginning of the talk. The objective was to "study the relation between the literary and art field and the general revolutionary tasks, make sure revolutionary literature and art take the correct course, make sure revolutionary literature and art promote other revolutionary tasks, use literature and art to defeat our national enemies, and accomplish the mission of liberating the whole nation." The sad thing about this is that people in the literary and art field have been studying the talk for almost half a century, yet it is still possible for some of them to forget that literature and art are related to the general revolutionary tasks, and that the final objective of literature and art is to serve other revolutionary tasks

better and to accomplish the final mission of revolution. This reminds me of the viewpoints suggesting that "literature has no objective; it owes its loyalty to itself," or that "the work of a writer or an artist simply expresses his inner self." The advocates of these viewpoints have definitely gone too far.

During the war, literature and art carried a mission; that was, to liberate the nation. Today, literature and art must not forsake their duty to help the country and the people charge full speed ahead for economic construction. We have already scored victory in reaching our first strategic goal. And we will reach our second strategic goal. This concerns the overall situation of the party, the overall condition of the entire country, and the general interest of all Chinese people and their descendants. Because of this, literature and art must coordinate all development and offer as much help as possible. Literature and art can only obey and serve, not betray or oppose, the overall development. This is the point we must understand.

To say that literature and art serve economic construction does not mean to repeat the past mistakes of "singing about the core, acting about the core, and painting about the core." Nor does this mean that the farther away our work is from reality the better. Literary and art works should reflect this great and yet severe time of ours and express the modern spirit of our people who are trying hard to achieve progress. The content of literary and art works should be rich, their presentation perfect and colorful. They motivate and stimulate. Because of them people will refuse to give up and will work hard to overcome obstacles. After a day of intense and heavy work, people may have good books to read, good television programs or movies to watch, good music to listen to, and good dances, paintings, calligraphy, and acrobatic shows to appreciate. The masses need many varieties of spiritual culture. This glorious mission has already been, on this historical occasion, given to our workers in the literary and art field of today. We must have a strong sense of mission and responsibility, and carry this historical mission. Needless to say, our people in the literary and art field have already accomplished many successes and created many excellent work. But we still have long way to go before we can satisfy the people's demand and meet their expectation of us. This is why we need to study seriously and thoroughly Comrade Jiang Zemin's speech at the Talk With Famous People of Literature and Art. Furthermore, we need to correct our thinking, work hard, and learn from historical experiences and lessons. We must pay attention to the reality, perform our duties from the practical viewpoint, and create more socialist literature and art. There should be more literary and art works that can be appreciated by the people. Only then can we say that we answer the needs of our time and fulfill the expectations of the people.

### Liu Zaifu Accused of Advocating Bourgeois Outlook

HK2706004391 Beijing WENYI BAO in Chinese  
25 May 91 p 3

[Article by Jiang Maoli (5592 5399 4409): "Essence of 'Human Love' Advocated by Liu Zaifu"]

[Text] In his "Subjectivity of Literature" and other articles, Liu Zaifu [0491 0375 1788] disguises himself as a "sanctimonious" humanitarian. Like a missionary, he takes great pains to preach "universal love" and "humanitarianism" as unified in all mankind. His remarks have puzzled some people, especially young students. That is why it is necessary to look into the essence of the "universal love" that he advocates.

Liu Zaifu says: "The self-realization of a writer is, in the final analysis, the evolution of love, and the deeper and broader this love evolves, the higher the degree of the writer's self-realization." He also says: "Writers and poets have a great love that transcends the closed nature of themselves...this love transcends themselves, blood ties, patriarchal clans, and national boundaries." It also certainly transcends classes, because he declares that such "universal love" means "loving everyone, including enemies," and "forgiving everyone, including criminals." With regard to the above remarks of Liu Zaifu, there are three questions that we must clarify.

First, can the "evolution of love" and "universal love" that Liu advocates be achieved? Liu's own practice is the most convincing answer to this. When he was director of the Chinese Academy of Social Sciences Institute of Literature and chief editor of WENXUE PINGLUN [LITERARY REVIEW], he cherished no love for those who held different views from his, but tried by every means to exclude, suppress, and attack them. Still less did he love and forgive those who criticized his erroneous views with Marxist viewpoints and methods. This is sufficient to prove his hypocrisy. Liu Zaifu advocates what does not exist in the present world, and what even he himself cannot achieve. What is he doing if not fooling people on purpose?

Second, what on earth does Liu Zaifu really love? The answer to this question lies among his many statements. To name just a few of his more important statements, his real love is shown in the following three aspects: First, in his words, the "self-realization of a writer is, in the final analysis, the evolution of love," and the "individual's self value is realized by his love for others and for human beings." Obviously, Liu Zaifu regards the "evolution of love" and "love for others and for human beings" as a way and a means to "realize an individual's self value." Here he quite unmistakably tells people that what he loves is neither "others" nor "human beings," but the "individual's self value," his "own self." If others, the collective, and the people hinder the realization of such an "individual's self value," then not a single trace of love will be bestowed except curses, attacks, and hatred. Second, there is his so-called "love for enemies" and

"forgiveness of criminals." Comrade Mao Zedong pointed out: "We should not love our enemies, nor should we love the ugly phenomena of society." At the present stage, enemies refer to those who are hostile to socialism and the people. They are trying by every possible means (including use of "peaceful evolution" tactics) to destroy our socialism. How can we love this sort of people? As to the so-called "forgiveness of criminals," it sounds more like religion and ravings, because no society or country will do such a stupid thing. This proposition of Liu Zaifu once again reveals his hypocrisy. Third, what he loves also includes the so-called society in which "men are the foundation." He vigorously attacks and opposes the "kingdom of instruments," but adopts the "objective kingdom"—namely, the social pattern in which "men are the foundation"—as his ideal society. The question is: What kind of society is it which he yearns for and in which "men are the foundation"? In his article "Loss and Return of the May 4th Enlightenment Spirit," he explains this very clearly. He says: "In a business society in which materials are widely exchanged, the social pattern is characterized by men being the foundation of all—who are equal before the exchange of materials, and the society provides every individual with opportunities of free competition which, by crashing the subordinate relationship of human groups, offers independence to every individual." He also says: "When mass production has not yet been fully developed in the Chinese society, which has not yet had a powerful basis for a commodity economy and modern social forces (including forces of the proletariat and the bourgeoisie, not handicraftsmen, but real industrial workers, and the social stratum of professionals), a powerful self and a strong independent character are not likely to emerge." The above words express without reservation that the so-called "objective kingdom," which he so yearns for and ardently loves, in which "men are the foundation" (in essence, the capitalists and their dictatorship are the foundation), is none other than the Western capitalist society.

Third, what is Liu Zaifu's aim in advocating "human love"? Although Liu Zaifu tries to evade this point in his articles, he cannot conceal his real intention. He says: "Every poet and writer, who has a mind to accomplish something, should have his own 'god' that he is pursuing, and this 'god' is love." He also says: "When a writers' spiritual subjectivity is given full play, they simply substitute themselves for the god in their hearts." Here Liu Zaifu regards love as Divinity that can create miracles, and as the Omnipotent that can transcend, conquer, dominate, and create everything. So long as they possess such a love, which is equivalent to a god, writers will also be the Omnipotent that can transcend, conquer, dominate, and create everything. As Liu Zaifu put it, these writers are the saviors and creators capable of "bearing all the sufferings on earth and all the evils of mankind," capable of "reproducing and rebuilding" the common people, and thus capable of "remedying the world's defects." Regarding the above statement, some comrades have pointed out that this is pure mysticism. We

should further note that his "Theory on Subjectivity of Literature" is also a thoroughgoing theory of making deities (i.e., the theory of turning writers into deities); and, as Liu Zaifu himself is more superior to such deities, he is a god who creates all deities.

Then, how will writers concretely perform the "historical responsibility to remedy the world's defects"? Liu Zaifu speaks out: "Writers must turn to themselves, seek help from themselves, exert self-stipulation and self-realization, show concern for the people's sufferings with their works, enhance the people's spiritual realm, portray a fine soul, encourage the people to transcend worldly vices, and create a bright future." These words can be regarded as a programmatic narration of Liu Zaifu's "Theory on Subjectivity of Literature." Not intending to make an overall analysis of the foregoing, we have tried to discuss just the motives relating to the essence of "human love" that he advocates. First, the above remarks are aimed at instigating writers to thoroughly divorce themselves from reality and the people, shake off all stipulations and restraints (referring mainly to the requirement of socialism and the people, the party's leadership, the orientation of literature and art "serving the people and socialism," and so on) except for those of the writers' own selves, define innate character and direction entirely with the writers' own subjective wills,

and express the realization of "self value" and universal "human love" in their works in a completely independent manner. Second, the above remarks urge writers to "enhance the people's spiritual realm" and "portray a fine soul" with works containing Liu's ideological concepts. In essence, Liu's remarks work to influence the people's hearts by using an extremely individualist outlook on value and life, to "reproduce and rebuild" the people's hearts with a bourgeois world outlook, and to create and open up the social foundation for bourgeois liberalization. Third, as stated above, Liu maintains that actual society is a "kingdom of instruments" (here he smears our socialist country as one in which people are not treated as human beings, and a kingdom "in which people are reduced to things, as well as instruments"), while regarding Western-style capitalist society as a so-called "objective kingdom" in which "men are the foundation" and which has an ideal social pattern and is a "fine object for reference." Thus, the real implication of what he calls "transcending worldly evils in creating a bright future" is self-evident. Liu Zaifu's political attitude of openly supporting the turmoil and counterrevolutionary rebellion that occurred in the late spring and early summer of 1989 in Beijing serves as an appropriate commentary to his political tendency and to the essence of his remarks.

## NATIONAL AFFAIRS, POLICY

### **Calls for Further Economic Stabilization, Reform Measures**

91CE0605A Chongqing GAIGE [REFORM] in Chinese  
No 2, 20 Mar 91 pp 18-25

[Article by Zhang Zhuoyuan (1728 0587 0337): "Give Priority To Stabilizing the Economy To Accelerate the Pace of Reform"]

[Excerpts] The policy that China has pursued in recent years of improving the economic environment, rectifying the economic order, and deepening reform has been remarkably successful. The economic situation is in process of heading slowly in a good direction. Nevertheless, the country has not yet truly extricated itself from difficulties; serious problems remain in economic life. Future efforts must be made to put the economy gradually into a benign cycle. Therefore, it is necessary to continue to give priority of place to stabilizing the economy, moving ahead with economic system reform without disturbing the macroeconomic equilibrium.

#### **1. Continued Priority To Stabilizing the Economy**

I believe that during 1991 and throughout the entire Eighth Five-Year Plan, stabilization of the economy should be made the main goal of the national macroeconomic policy. This goal will necessitate guarding against a more than moderate speed of economy growth and recurrence of an overheating of the economy and total imbalance. It will also require vigilance and prevention of a resurgence of inflation, and perseverance in keeping the rate of increase in retail price levels below two digits. Not only will this help the sustained, stable, and coordinated development of the economy, but it will also help in moving ahead smoothly with economic reform. [passage omitted]

Stabilizing the economy requires controlling the speed of economic development first of all, primarily the speed of industrial development. That we need a certain speed of economic development goes without saying, but the unrealistically overly high speed of development that we have always sought heretofore created unpleasant results. On the basis of past experience, an economic growth rate of between 5 and 6 percent is quite suitable for China. It helps stabilize and develop the economy.

A between 5 and 6 percent speed of economic growth is also permitted by objective conditions during the Eighth Five-Year Plan and throughout the 1990's. During the 1990's we want to realize the second step objective in the country's three-step development strategy, namely a quadrupling of the 1980 GNP by the year 2000. In 1980, the country's GNP was 447 billion yuan, so it will have to reach 1.788 trillion yuan in order to quadruple by 2000. Figured in terms of 1980 prices, the country's GNP for 1989 was 1.002 trillion yuan for 2.24 fold increase over 1980 in an annual average 9.38 percent increase and a doubling ahead of schedule. The GNP for

1990 increased by about 5 percent over 1989 reaching 1.052 trillion yuan. Thus, taking 1991 as a starting point, an average annual 5.5 percent growth will make possible a doubling by the end of the present century, which is to say realization of the second step toward the development strategy goal. This realistic circumstance can reduce pressures to pursue overly high speed, and can particularly reduce pressures for the use of expansionist economic policies to stimulate high speed economic growth. The country's annual rate of GNP increase has to be lower than the rate of increase in industrial and agricultural gross output value for the same period. It has been about 2 percentage points lower, and it is estimated that it will have to be about 1.5 percentage points lower during the 1990's. This will assure an annual average 5.5 percent increase in GNP, and an average 7 percent rate of increase in the gross output value of industry and agriculture. Estimates call for an annual average growth rate of between 3.5 and 4 percent for the country's agriculture under normal conditions, and a suitable ratio between industrial and agricultural development of between 2 and 2.5 to 1. This will require more than 7 percent average of an annual industrial growth rate. Maintenance of an 8 to 9 percent growth rate will be about right.

The most conspicuous problem in national economic development today is not the speed problem, but the unbalanced industrial structure and a decline in economic returns. Development of basic industries and basic facilities including agriculture, transportation and communications, energy, and raw and processed materials industries lags. A substantial gap exists between supply and demand. The annual average rate of growth of the country's agricultural and industrial output value from 1986 to 1988 was 4.36 and 16.65 percent respectively, the 1 to 3.8 ratio between the two being markedly lower than the normal level. The average annual rate of increase in railroad freight transportation volume and GNP was 3.5 and 10 percent respectively, the 0.36 to 1 ratio between the two being lower than an equitable 0.5 to 1 limit. The energy elasticity coefficient was 0.4, a value lower than the 0.61 of the Sixth Five-Year Plan. These situations show that the lag in basic industries has become a serious obstacle to the smooth development of the national economy. Therefore, readjustment of the industrial structure should be main emphasis in economic development during the Eight Five-Year Plan.

Since improving the economic environment and rectifying the economic order, we have made advances in the strengthening of agriculture. The gross output value of agriculture increased by 3.1 and 5 percent respectively in 1989 and 1990, while industrial output value for the same period increased approximately 8.5 and 6 percent for a revival of the normal ratio between the two. The ratios between other basic industries, such as those producing energy, communications, transportation, and raw and processed materials, as well as processing and manufacturing industries, has also improved to a certain extent, but progress has not been sufficiently marked.



This means that the goal of redirecting assets in inventory to adjust the industrial structure has not worked, and that little progress has been made as well in redirecting increased assets to rectify the industrial structure. Close attention to and improvement of agriculture and other basic industries, properly restraining the headlong development of processing industries, including the reorganization and transformation of processing industries remains an important future task.

Solving the problem of decline in economic returns requires not only doing a good job of rejiggering the industrial structure to improve returns from the allocation of resources, but also requires perfection of the enterprise mechanism, scientific and technical progress, and better management for a gradual increase in returns from microeconomic activity. The State Council's efforts to make 1991 a "quality, variety, and benefits year" will be a good beginning.

Yet another fundamental sign in stabilizing the economy is eradication of marked inflation. I believe that controlling the inflation rate below double digits, and ideally at between 5 and 6 percent, during the reform period may be generally taken to mean that the economy is basically stable.

As a result of two years of improving the economic environment and rectifying the economic order, the market retail price level begun to stabilize at only 3 percent a year. Nevertheless, we must realize clearly that the low rise in prices during 1990 are not firm. Numerous measures for adjusting prices have yet to be completely applied to price rises. Since price relationships remain seriously distorted, continued increase in prices of basic products is urgently needed. This will cause a rise in product costs and an increase in prices. Particular note should be taken of the overly swift increase in credit beginning in the fourth quarter of 1989. During the fourth quarter of 1989, more than 120 million in new credit was issued. During 1990, both bank credit and the money supply increased too much, bank credit increasing by more than 250 million yuan in a more than 20 percent rate of growth. This far surpassed the degree of economic growth and the rise in prices, making 1990 the year of greatest increase since 1987. The money supply (including both the issuance of currency and money in savings accounts) also increased more than 20 percent. This was bound to increase inflationary and price rise pressures. If hopes are always pinned on the continuance of credit to stimulate demand, this will be found to create a new round of huge price increases. In addition, the fiscal deficit is high with no sign of coming down. Increase in government borrowing from banks will also impel banks to issue more currency, thereby promoting increase in the money supply. Consequently, neither future state macroeconomic policies, particularly fiscal policy, nor money policy can be further relaxed. The point of departure for both must be guarding against a resurfacing of inflation. Since expenditures provided for in the 1991 plan cannot be considered exorbitant, and the speed of economic

development cannot be considered high, in addition to which 1990 was a bumper harvest year, even if 1991 is only an ordinary harvest year, prospects are that grain prices will remain stable. Therefore, the likelihood that the country's inflation rate will reach double digit proportions in 1991 are not very great. Nevertheless, after 1991, the tasks of holding down inflation may become greater. We must be doubly careful in our choice of macroeconomic policies, refraining at all costs from pursuing the "speedy returns" for which the inevitable cost is inflation. This is because the ideas and actions that seek returns from high speed remains an extensive road of development of high inputs for low output and high consumption for low returns can only bring about overly vigorous growth of demand and overall inflation that destroys the equilibrium of consumer goods and investment markets. This, in turn, conditions the public expect inflation, giving rise to new inflation that subsequently forces another readjustment of the economy, which creates serious losses and waste. We can only use the holding down of inflation as a point of departure in planning the scale of construction and the speed of development, and in planning the speed of increase in people's income and their level of consumption. This means that we must adhere to a firm fiscal policy and currency policy. With the advent of separate reform measures, we must consider well the need not to add to inflation. Price reform has to be approached step by step, avoiding the removal of price restrictions all of a sudden on a large number of products that sets off an overly large increase in the overall price level in order to guard against too great a readjustment of prices giving rise to a chain reaction and an intense rise in prices.

## **2. Continued Promotion of Market-Oriented Reforms In and Effort To Put the Economy Into a Benign Cycle**

Many problems in China's economic life today are created by the economic system, particularly the two-track operating system, too much administrative interference, and severe administrative barriers that get in the way of rational readjustment of the industrial structure and improvement of economic returns. Therefore, continued promotion of market-oriented reforms, doing all possible to shorten the painful stage of two-track operations to lay a foundation for a system in which the economy enters a benign cycle and steady development seems particularly important and urgent. Only by putting the economy gradually into a benign cycle will it be possible to avoid the dilemma of solving old problems only to have new problems arise to escape from the vicious circle of inflation—retrenchment—inflation, and avoiding twists and turns and ups and down, thereby also avoiding a renewed attack from inflation.

The economic crisis of 1988 was an eruption of problems accumulated over many years. It did not stem ultimately from going too far with system reform, but rather was created by shortcomings in the existing system, and policy mistakes.



Speaking of system shortcomings, a hunger for investment and an impulse to expand exist in all departments, local governments and enterprises leading to demand inflation and failure to seek returns, enterprise responsibility only for profits and not for losses, excessive pursuit of short-term returns, and staff member and worker pay raises that often exceed labor productivity rate increases. The narrowness and insufficient solidity of the role of the market mechanism, failure to set up a market price system, and distorted price ratios among different commodities or factors of longstanding are far from being corrected, thereby leading to abnormal imbalance in the industrial structure. Neither the "iron rice bowl" labor system nor the "large common pot" wage system have been demolished; enterprises are not allowed to go bankrupt, and staff members and workers cannot be let go to become unemployed, thus making impossible the necessary survival of the fittest and the creation of an economic restraint mechanism. Commodity flow in a system in which two-track prices co-exist is disorderly leading to serious losses along the way. Every jurisdiction proceeds from its own local interests, keenly investing funds in processing industries, too many of which already exist, and engaging in local blockading and cutting up the market, etc. All these things promote inflation and cause structural imbalances.

The main policy mistake made was the tendency since the last half of 1984 to use expansionist macroeconomic policies to support high speed growth, which held a generally dominant position. In several readjustments, such as the retrenchments at the end of 1985 and the beginning of 1986, and during the fourth quarter of 1987, even before the retrenchment was completed, there was a rush to liberalize credit and re-expand. Thus, the oversupply of money became the main aspect of monetary policy during the past several years. Impatience to succeed with economic development soon led to economic overheating, inflation, excessive price rises, and disequilibrium in the national economic ratios, which not only made high speed development difficult to continue but also ruined the economic environment for reform. Several intended price reforms had to be delayed because of the hectic economic relationships.

Since 1979, the direction of the country's economic system reform has been correct and results outstanding. This has even been the case since 1984 with reforms focusing on the cities. While basically affirming achievements, shortcomings also exist, principal of which are as follows: Too much delegation of authority, making of concessions, and stimulation of interests to the neglect of the transformation mechanism; too much sharing of authority with local governments while not sharing sufficient authority with enterprises and markets, meaning mostly a tilt toward administrative sharing of authority with insufficient economic sharing of authority; efforts for a time to detour around price reforms posing the greatest difficulty; and lagging reform of the macroeconomic regulation and control mechanism, etc. In this sense, the reforms of the past several years have not had

too much of a market orientation at all; instead, market-oriented reforms have been insufficient and should be further deepened. In view of the limitations and the blindness of the role of the market mechanism, when moving ahead with market-oriented reforms coordination with state plan guidance and macroeconomic regulation and control is necessary so that reform moves ahead in a direction in which plan and market are organically linked.

Once it is made clear that reform has to have a market orientation in which plan and market are inherently and organically linked, determining the goal pattern for complete economic system reform becomes fairly easy. Twelve years of practice in reform suggests that the goal pattern of China's economic system reform may be set as follows: building of a distinctively Chinese economic system possessed of vigor and vitality that is founded on public ownership, and that is compatible with a planned commodity economy to give impetus to the smooth development of social productivity. In a nutshell, this means the building of a new planned commodity economic system. In such a new system, as I understand it, commodity economy activity would be based on socio-economic activity with vigorous development of the commodity economy and full application of the market mechanism. In addition, economic activity would have to be under macroeconomic control and plan guidance, social commodity economic activity thereby being placed on the track of plan development to avoid the occurrence of cyclical economic crises such as occur in capitalist society. Under such a system, the macroeconomy would be under the planned control and regulation of the central government. Microeconomic activity would be regulated primarily by the market, the production and business activities of large numbers of state-owned enterprises and nonstate owned enterprises facing identically competitive markets for the building of a fairly rational and sound social insurance system that combines impartiality with efficiency, etc. This would also pretty well reflect the principle of a combination of a plan economy with market regulation.

### **3. Seize the Opportunity That Macroeconomic Stability Provides To Move Ahead Actively With Reform**

An increasingly large number of people now realize that only by deepening reform to build a new planned commodity economy system will it be possible to move the economy into a benign cycle to ensure the sustained, stable, and coordinated development of the national economy. After more than two years of improving the economic environment and rectifying the economic order, the country's macroeconomy has regained equilibrium and has become stable. This creates a rather comfortable climate for carrying out reform smoothly. We should seize this opportunity to move ahead actively with reform.

First, we should move ahead actively with price reform.

Practice in reform shows that price reform is the key to the transformation of the economic operating mechanism. It is the main line of economic system reform. However, price reform is an economic reform that holds great difficulties and poses great risks. It imposes exacting conditions, particularly requiring a fairly roomy market environment. If the macroeconomy is not stable and the market situation is fairly tense, price reform may give rise to a great rise in prices, producing market fluctuations that harm social stability. It may even damage the reputation of reform. Right now we must seize the fairly favorable opportunity for price reform that still exists to move ahead further with price reform. This includes the following:

Further readjustment and increases in prices of basic products, raising the prices of crude oil, coal, raw and processed materials, transportation, and grain (the state fixed procurement portion) as a means of inducing people out of economic interest to accelerate the development of these basic products and basic facilities which have long been in short supply, thereby advancing a rational readjustment of industry and the product mix and an equitable allocation of social resources.

Continued removal of restrictions on prices of products for which supply and demand is in balance, or for which, despite imbalance between supply and demand, there is great flexibility and that do not have a direct bearing on the national economy or the people's livelihood. First, the commodity prices that were once freed from restraints only to have them reimposed in 1989 should be freed from restrictions one after another. Prices under market regulation or semi-market regulation during the Eighth Five-Year Plan should be increased from the present approximate 50 percent to about 70 percent.

Gradual elimination of the two-track price system for means of industrial production, merging the tracks by merging most products on the market track, merging only a small number of the products on the plan track. This process can be carried out in conjunction with readjustment of the overly low prices of basic products, and in conjunction with the narrowing of the two track price differences. Thus, for the product prices merged on the market track, the readjustment of prices is only preparation for the removal of price restraints. Right now, the sole tendency to merge prices only on the plan track has to be guarded against.

Gradual straightening out of the correlation between procurement and sale prices, making hidden subsidies open subsidies in a reduction of price subsidies. Price subsidies should be limited to a small number of essentials important in the daily life of the people such as grain rations and certain public utility charges. Even with grain rations, the amount supplied at a low price must be gradually reduced to narrow the procurement and sale price differential. All of the foregoing is of extremely great importance in properly guiding people's consumption and readjusting the consumption structure.

Price reform cannot be avoided, and since price reform is the most important reform, it may frequently provide an opportunity for other reforms; thus, it is necessary to get on with it. In view of the country's circumstances, price reforms can only be conducted step by step at the present stage; there can be no "electric shock therapy." Even gradual reform requires payment of a fairly high cost in the form of an extended period of suffering through reform, but great dangers can be avoided, a calm transition realized.

Second is the need to move ahead with enterprise reform.

Enterprise reform is yet another main line in reform of the entire economic system. Enterprise reform and price reform are mutually supporting and mutually advancing. I believe that the most important thing in so-called associated reforms is the first level of association, namely the matching of enterprise reform with price reform. Unless enterprises are reformed, even if the price formation mechanism is reform to build a market price system that is macroeconomically regulated, if state-owned enterprises are not changed from things subordinate to administrative departments into self-administered producers and operators responsible for their own profits and losses, enterprises will be unable to react flexibly to market prices and changes to guide their production and management activities. Naturally, if only enterprises are reformed in an effort to evade price reform, enterprise reform will also not succeed. This is because the authority to set prices is a right that commodity producer and manager enterprises must possess. In addition, if a system whereby prices are set by the government in which the correlation among prices is seriously distorted is retained, it will be impossible to create truly competitive markets. There can be no fair competition among enterprises, and thus, the whole economic operating mechanism cannot be genuinely transformed. The scope of enterprise is very broad. Today it mostly includes the following:

Continued enhancement of the vitality of enterprises, particularly of state-owned large- and medium-sized enterprises. The laws, rules, regulations, and policies already promulgated to enliven enterprises must be genuinely put into effect. The efficiency of state-owned enterprises stems ultimately from competition. Therefore, government must create the necessary climate and conditions to enable a separation of government and enterprise functions, and a separation of ownership rights and operating rights, thereby promoting competition among state-owned enterprises and among non-state-owned enterprises. This means not devoting too much consideration to how to use administrative strength to provide preferential treatment or support in various regards to state-owned enterprises, including large- and medium-sized state-owned enterprises, but rather gradually increase market pressure on them.

Continued readjustment of the ownership structure, developing nonstate enterprises in accordance with state

industrial policy. First it is necessary to continue vigorous development of township and town enterprises to make fullest use of the country's advantages in natural resources, accelerating rural industrialization to meet the need to transfer surplus rural labor. Continued guidance and encouragement to the individually owned economy and the privately owned economy for their active development within the limits that the state allows. In addition are policies for further opening to the outside world, for improvement of the investment climate, for putting investment on a sound footing, and for tax collections to provide impetus for three kinds of partially or wholly foreign-owned enterprises to further develop industries that help increase foreign exchange earnings from exports and import substitution, and that promote technological progress and the building of basic urban facilities. It must be realized that the development of other than state-owned enterprises is very beneficial to promoting the formation of competitive markets to increase market pressures on state-owned enterprises.

Perfection of the enterprise operation contract responsibility system requires development away from the contracting of taxes and profits in the direction of contracting responsibility for assets and returns from them, and it requires that contracting be done in conjunction with enterprises' intermediate and long-term development plans, technological transformation, and plant economics in order to restrain enterprises short-term behavior. That the contracting system in China is not the long-term orientation and goal of enterprise reform, and that it is only a relatively realistic choice for the moment must be spelled out. The stage must be set gradually to make a transition from the contract system to a stock share system in which government administration and enterprise management are separate, and in which the correlation between production and authority is clearer. Therefore, the number of stock share system pilot projects must be increased. For example, the stock share system can be fairly generally practiced in some cities, with newly built enterprises doing all possible to use forms of the stock share system.

The leasing system should continue to be promoted in some small labor-intensive enterprises. Leasing fees should be based not only on fixed assets and working capital, but various differential returns must also be taken into consideration such as plant site, patents, and product reputation. Enterprises that have been poorly managed for a long time and are losing money can make sales at reduced prices.

Next is more reform of the macroeconomic regulation and control system.

While enlivening the microeconomy and expanding the role of the market mechanism in recent years, insufficient attention has been given to reform of the macroeconomic regulation and control mechanism. As a result, a little too much emphasis has been placed on the delegation of authority and the making of concessions to the neglect of a transformation of the mechanism. Direct

regulation and control has become lax while reform of indirect regulation and control has lagged. This has led to confusion and disorder in economic life, particularly in the commodity circulation area. Reform of the macroeconomic regulation and control mechanism and the building of an effective macroeconomic regulation and control system has now been placed on the agenda of important things to do. The orientation for reform of macroeconomic management remains a transition from mostly direct regulation and control to mostly indirect regulation and control, greater use made of fiscal and financial methods to regulate and control operation of the economy. Naturally, reform still has to be conducted in a step-by-step way; acting with undue haste will not do. Reforms in this regard include mostly the following:

**Financial reform.** Financial reform includes reform of the banking system, increasing the central bank's macroeconomic regulation and control functions. This includes upgrading the central bank's position, expanding the central bank's monetary policy autonomy to keep prices basically stable. In reforming the system for controlling the issuance of money, the emphasis should be primarily on setting the increase in the money supply on the basis of the economic growth rate as credit relationships expand. No longer can cash alone represent money;  $M_1$  (cash plus savings accounts) must gradually come to represent money so that control is exercised not only over the issuance of cash, but also over money in savings accounts to set a rational total money supply. "Loans made for policy reasons" should be kept separate from "commercial loans" to prevent soft bank restrictions from taking the place of soft government fiscal restrictions, all possible being done to reduce, or even eliminate, use of bank loans to support the operation of enterprises having low returns that are operating at a loss. Correspondingly, efforts should be directed to separating state banks of a policy nature from commercial banks. The former should mostly handle loans for the state procurement of agricultural by-products, credit for old revolutionary base areas, minority areas, border regions, and impoverished areas, and development loans. The latter should most develop in the direction of providing credit for enterprises' self-administration, responsibility for their own profits and losses, and self-rescue funds. Conditions should be gradually created for putting the specialized banks on a commercial footing, eliminating administrative obstacles to competition among commercial banks.

**Fiscal reform.** Implementation of double entry budgeting and regular budgeting (so-called "subsistence financing") must insure receipts that are greater than expenditures, a surplus remaining. There can be positively no fiscal deficits. In addition to receipts and expenditures for state-owned assets, economic constructions can employ methods such as the issuance of debentures and stock shares to obtain finance capital.<sup>(1)</sup> However, there can be no automatic bank overdrafts. The fiscal relationship between the central and local governments must be reformed, changing the existing local

government financial contracting system to a tax sharing system based on central government and local government responsibilities. Right now, a system for "tax sharing contracting" should be instituted as a transitional form, the main kinds of taxes such as product taxes, added value taxes, business taxes, uniform industrial and commercial taxes, resource taxes, and salt taxes being shared between the central government and local governments, several scales based on the different levels of economic development in separate areas being used to arrive at the percentages to be shared. The uniform enterprise income tax rate should be changed from the present abnormal situation in which the tax burden for state-owned entities is higher than for collective ones, higher for collective ones than for individually owned ones, and higher for domestically capitalized ones than for foreign capitalized ones. State owned enterprises should gradually promote the separation of profits from taxes, after-tax loan repayment, and after-tax contracting.

Next is the establishment of a social security system and reform of the labor wage system.

The building of a social security system and reform of the labor and wage system is urgently needed in order to move ahead steadily with reform of the economic system, bringing into play the role of the survival-of-the-fittest mechanism, and the rational movement of assets and labor. The establishment of a social insurance security system means essentially that society provides each of its members needed social security and poverty relief. Sources of funds for this purpose should include not only national government support and those that enterprises provide, but individuals should also bear responsibility for providing a portion. Social insurance has to be centrally planned by the central government rather than each jurisdiction going its own way. Enterprises under ownership of the whole people, collectively owned enterprises, three kinds of partially or wholly foreign-owned enterprises, and privately owned enterprises, as well as individually owned enterprises must all pay into the insurance fund, which is to be centrally administered and used. The social security fund must be administered by a special agency, which is also be responsible for maintaining and increasing its value through means such as the purchase of government bonds. Decisions must be made about establishing and developing labor markets, with a two-way freedom of choices for both parties to work force supply and demand in the taking of a fairly large step. Insofar as possible, hidden wage income should be made open wage income to change the impression that the amount of party and government cadre money wages is high. In the publicly owned economy, better means should be sought to institute the principle of distribution according to labor. In situations where the distribution of social income is not fair, loopholes should be plugged first in conjunction with regulation through taxation.

Accompanying the foregoing reforms should be an acceleration of the pace of reform of the urban housing

system. Reform of the urban housing system can reduce national fiscal subsidies and improve residents's consumption patterns. It can also take money out of circulation, steadily raise funds to build housing, and accelerate the building of housing. This matter, which holds so much benefit for the country and the people, has been thwarted for the past several years by a small number of people having vested interests. Progress has been slow. (In early 1988, the State Council promulgated the full spread nationwide of housing reform within three years, increase in housing rentals, and the issuance of housing of housing bond subsidies, all of which were to take effect at the same time.) Now a good summarization of the lessons of experience will have to be made and a decision made to hasten the pace of reform. House rents will have to be increased to begin with, with wage readjustments made at the same time (using the annual housing subsidy of several million yuan). This will mean increased expenditures for the larger number of staff members and workers who occupy housing, and an increase in income for a relatively smaller number of staff members and workers who use housing, thereby giving impetus to the commercialization of housing, and promoting development of a urban real estate market.

Beyond this is continued reform of the planning system, the investment system, the materials system, and the foreign trade system. Rural reforms based on the consolidation and perfection of the family output-related contract system must also be deepened. All these reforms will powerfully promote the movement of the economy into a benign cycle to assure the long-term, sustained, steady, and coordinated development of the national economy.

#### Reform of State Ownership Discussed

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[Text] Should state ownership be reformed? People seem to be in complete agreement when answering this question. Everyone thinks that the present form of state ownership must be reformed. They differ, however, on how it should be reformed. In studying this question, we must first study the evolution of state ownership and the objective patterns of its development.

To this day, direct state ownership has been, as a general rule, the form of whole-people ownership adopted by all socialist countries in their establishment of a new socioeconomic system. Theoretically speaking, however, state ownership is not necessarily the only or the best choice for whole-people ownership and neither is direct state ownership necessarily the only and best choice. In my opinion, the history of the evolution of state ownership will be a history of the gradual weakening and ultimate

dying out of state ownership. Nonetheless, between the primary and highest forms of whole-people ownership, and in the process whereby state ownership ultimately steps down from the stage of history, there will necessarily be a series of intermediate links and a transitional stage. In keeping with this, whole-people ownership will also adopt and abandon a number of transitional forms in a given order. On the whole, contractual state ownership, indirect state ownership, and mature social ownership will be the three basic forms for the transition of whole-people ownership from its primary form of direct state ownership to its mature and advanced form. In this article, I will attempt a preliminary analysis of the objective historical stages and transitional forms that are likely to be experienced in state ownership reform to reveal the patterns and orientation of reform.

### **I. Transition from Direct State Ownership to Contractual State Ownership**

The intrinsic characteristic of direct state ownership of the means of production as the core of the conventional economic system, is that the state not only enjoys ownership rights, but also directly controls and exercises operational rights, over the means of production. Historically, this was the necessary product of a particular social need. When the socialist economic system was in its infancy, the relations of production under public ownership were still very weak in their capacity for self growth. Without the support of state power, socialist relations of production, as the precondition for social production, could not have reappeared as the fruits of social production. However, when direct state ownership ossified and changed from a transient historical need into nonhistorical existence, it turned into a form which fettered the development of productive forces.

The basic characteristics of direct state ownership are as follows:

1. Ownership rights, possessive rights, control rights, even use rights over the means of production, all rest with the unified "management office" of the whole society, that is, the state. The state directly organizes production and consumption activities in society as a whole, right down to the stipulation of work standards and remuneration for laborers.
2. The independence and decisionmaking power of enterprises are totally out of the question. In an economy under direct state ownership, the whole society will be "a single" management office, "a single" factory.<sup>1</sup> The enterprise is no more than a section, a workshop, in this "factory." It will never be able to exist in the social production system as an independent commodity producer capable of managing its own affairs.
3. Direct state ownership fundamentally rejects the commodity economy and its relationship with commodity-money is as incompatible as fire and water. Because the whole society is viewed as "a single factory," exchange between workshops, which is expressed as the physical displacement of products within the same factory, will be

expressed in the direct allocation and transfer of the means of production and products between enterprises in the whole society. Even if the monetary form is used, it can only function as an accounting tool under such circumstances and cannot become an "oxidizing agent" in the commodity economy.

Direct state ownership is fundamentally responsible for the dependence of enterprises on the state. This dependence by enterprises has become the very crux of the conventional economic system. It has reduced enterprises to mere tools for the fulfillment of mandatory production tasks handed down by the competent authorities. They simply do not feel the urge to act independently and do not organize production according to market needs. They are totally powerless when it comes to distribution. Externally, in their relations with the state, they have to surrender all profits to the higher authorities. Even the bulk of the fixed asset depreciation fund has to be handed over to the state for unified receipt and payment. Internally, in their relations with staff and workers, enterprises have to adhere to a unified labor and wage scale and insignificant bonus standards. Egalitarianism is practiced in distribution. Promotion for staff and workers is usually centrally arranged and ultimately approved by the competent authorities in "general adjustments" carried out once every several years. Thus, enterprises not only have no control over their earnings but are not in a position to make flexible use of the remuneration fund to reward the hardworking and punish the lazy. In the final analysis, the fact that direct state ownership denies the autonomy of enterprises and the material interests of employees has completely blocked the microeconomic source for the development of social productive forces.

Some reform theorists with great insight have long been critical of the direct form of state ownership. Some pointed out that, from the production relations angle, this form of ownership had led to new alienation. A small number of them tried to prove, from the functional angle, that it had hampered the development of production. Evaluated from the high plane of history, the theoretical contribution by these theorists lies in the fact that they have pointed out the historical limitations and transitional nature of direct state ownership and have done their utmost to define the special traits of the future mature form of whole-people ownership (what they call "social ownership"). For two reasons, however, they failed to find the correct orientation of state ownership reform. First, because they failed to see that the transition from the primary form of whole-people ownership, namely, direct state ownership, to its advanced and mature form, that is, social ownership, necessarily goes through a number of transitional stages, they attempted to accomplish this transition directly. Second, because they regarded direct state ownership as the only form of state ownership, they rejected the possibility of pushing forward reform of the public ownership of the means of production through self-transformation of the specific form of state ownership in a given stage of development.

In my opinion, ownership relationship embodies a very complicated microeconomic structure. State ownership is by no means a simple concept in the first place. Due to differences in the actual conditions of ownership rights, possessive rights, control rights, use rights, and the right to enjoy benefits in respect of the means of production, state ownership can appear in different patterns or forms. It is one-sided to regard direct state ownership under the conventional economic system as the only form of state ownership. The rejection of one form of state ownership in a given stage of development should not lead to the abandonment of efforts to seek other forms of state ownership, but this was precisely what the early reform theorists had in mind.

From the primary form of direct state ownership, we can only make the transition to contractual state ownership. This is the objective pattern in whole-people ownership reform. The so-called contractual state ownership has "the separation of two rights" as its theoretical basis. Under contractual state ownership, the state enjoys ownership rights and the enterprise enjoys operational rights in respect to the means of production in accordance with the signed contract and they both have the right to enjoy benefits. Under conditions specified in the contract (such as the rate of appreciation of fixed assets), the state will not interfere with the decisions made by enterprises on production and operational matters. State income from enterprises takes the following three forms: first, tax revenue, which is a reflection of the state's own economic existence; second, interest on state-owned assets, which represents the benefits obtained by the state by virtue of its ownership rights over the means of production; third, part of the profits handed over by enterprises, which represents a privilege retained by the state to supervise or ultimately apply the brake on the operational rights of the contractual enterprises. In this sense, the separation of ownership and operational rights under contractual state ownership is only relative. The contract system currently implemented in most enterprises is a practical form of contractual state ownership.

Under socialist conditions, the separation of ownership and operational rights in respect of the means of production stems directly from the problems inherent in whole-people ownership. On the one hand, the means of production under whole-people ownership are owned by laborers as a whole. In this sense, ownership is unified and inseparable. On the other hand, the means of production owned by the whole people are scattered and are actually possessed and used by individual enterprises. In the socialist stage, the limited development of the productive forces means that it is not yet possible for a unified social center to organize and direct production in society as a whole, as envisaged by the theory of "the big factory of society." The disparity in the operational standards of enterprises will produce vastly different economic results, so that different enterprises will expect different material gains. The commodity-money relationship within the state sector is the social form through which such demands for material gains are realized.

From this stems the contradiction between unity as reflected by the ownership of the means of production by the whole people and dispersion as reflected in their possession by individual enterprises. This is the most profound internal contradiction inherent in whole-people ownership. The conventional form of direct state ownership tries to overcome this contradiction by depriving enterprises of their operational rights. Practice has proved that this will get us nowhere. We have only two options left: We can either separate ownership rights and operational rights or bring about the unity or centralization of ownership rights and operational rights at the enterprise level. However, the reunification of ownership and operational rights at the enterprise level implies mature and highly developed public ownership relations. A whole range of conditions have to be met first. For instance, this requires that the quality of enterprises, as the ownership subjects of communities of free individuals, has reached a fairly high standard. It also requires a fully developed socialist market. What this in fact means is the highest stage of growth for whole-people ownership in the socialist period, that is, the mature form of social ownership which will be analyzed in the last section of this article. If we try to make the transition to this form of whole-people ownership when the necessary conditions are absent, we are likely to bring about de facto ownership by enterprises. Thus, in the early stage of development, the separation of ownership and operational rights is the only way to solve the abovementioned internal contradictions inherent in whole-people ownership. Contractual state ownership conforms to this intrinsic inevitability and is a necessary link in the process of ownership reform.

## II. Development of Contractual State Ownership Into Indirect State Ownership

Contractual state ownership is no doubt a big step forward compared with direct state ownership, but it is not without its inherent drawback. This inherent drawback lies in its inequality in terms of contractual constraints. In other words, it is permanently tilted in favor of state intervention. Theoretically speaking, as long as the state exercises its ownership rights in its capacity as owner, then all interventions and encroachments perpetrated by the state through state organs in charge against the operational rights of enterprises are not only possible but justifiable. This is because in the unity of ownership rights, possessive rights, control rights, use rights, and the right to enjoy benefits, ownership rights are of overriding importance. Thus, the separation of ownership and operational rights alone is not enough in the long run because such a primary separation is not sufficient to establish the position of enterprises as commodity producers. Another factor to be borne in mind is that after long years of operation under direct state ownership, enterprise leaders have become mere appendages to competent authorities at the higher levels and have been unable to form a separate and independent management level with the will to carry out operations independently. Because of this, possessive rights,

control rights, and use rights are still stuck together after the separation of ownership and operational rights. The inappropriate and oversimplistic equation of the status of enterprise employees as masters of the country with the possessive, control, and use rights will not only undermine the position of enterprise leaders as enterprise legal representatives but also their authority to independently exercise their control, that is, management, rights.

Solutions to the above problems depend on the transformation of contractual state ownership into a new ownership form, that is, indirect state ownership. Indirect state ownership has "separation on two levels" as its theoretical basis.

The separation of two rights usually refers to the separation of ownership and operational rights over the means of production. However, in the possible forms of interrelations between ownership, possessive, control, and use rights, and even the right to enjoy benefits, regarding the means of production, separation actually includes separation on two levels. The separation of ownership and operation rights represents separation on the first level. After this has taken place, a further "nuclear fission" can occur in two directions. The first fission can take place in the direction of ownership rights. In this direction, owner status and ownership functions may be separated. Owner status refers simply to a legal entity obtaining the earnings due to the owner, while ownership functions refer to the right of ultimate disposal of the means of production. In a capitalist society, when people at various levels of society who rely on interest payments for a living put their capital in the banks, or buy large volumes of shares, they hold on to their own legal existence simply as owners, while their ownership functions are automatically transferred to bankers or the board of directors of shareholding companies. This separation between owner status and ownership functions can also take place under socialist conditions. The second fission can take place in the direction of operational rights. In this direction, possessive and control rights regarding the means of production can also be separated. Control rights refer to management rights. In the past, many comrades often confused control rights with ownership rights, or the right of disposal with respect to the means of production, in their writings. This did not in fact conform with the original intention of the inventor of this concept. Lenin once deemed that there was little difference between "control" and being "in charge."<sup>2</sup> Although management and possessive rights together constitute the main body of operational rights, they are also relatively independent. Possessive rights refer to the actual possession of the means of production. They find expression mainly through the collective possession of enterprise profits by employees and through the election of, and supervision over, the management level by the workers' congress. However, control rights, or management functions, cannot be exercised by individual employees and have to be exercised by the management level on their behalf.

From this stems the separation of possessive and control rights within operational rights. It can thus be seen that control rights over the means of production are also relatively independent and form a relatively independent link in ownership relationships. The benefits obtained by the management from exercising control rights over the means of production on behalf of all employees are the income due to managers.

I refer to the separation between the owner status and ownership functions in ownership rights and the separation between possessive and control rights in operational rights following the primary separation of ownership and operational rights over the means of production, as "separation on two levels." After implementation of "separation on two levels," the owner status and ownership functions of the state can no longer find concentrated expression in the state. In its capacity as owner, the state simply enjoys and exercises its right to receive benefits. Its ownership functions are delegated to economic bodies organized in accordance with given means or principles. The latter are given the right of disposal regarding the means of production, including the authority to organize the implementation of new capital construction projects and to close, suspend, and merge enterprises and change their product lines. Thus, some sort of buffer is erected between the "will of the state" and the operational rights of enterprises. This "buffer" can "distill" the "will of the state." It can mitigate, even eliminate, the inroads of erroneous ideas by the state on the operational rights of enterprises and ensure the state's guidance over economic activities through economic means. With respect to operational rights, some sort of buffer is also erected between the independent status of employees as masters and the independent control rights of managers. This buffer can effectively maintain the relative independence of possessive and control rights over the means of production in the overall unity.

State ownership with "separation on two levels" will have the following special traits:

First, under the "separation on two levels" scenario, state organs in charge will no longer directly exercise their ownership rights, or the right of disposal, regarding the means of production. This function will be exercised by new economic organizations through economic means and state organs in charge will only be participants in these organizations.

Second, economic organizations exercising the right of disposal regarding the means of production on behalf of the state are, by nature, asset companies under whole-people ownership. As I see it, the decisionmaking body in these companies may consist of representatives from competent state authorities, financial institutions (banking circles), entrepreneurial circles (entrepreneurs from big companies or enterprises), public opinion bodies (elected by people's congresses), and economists. With financial circles as its prop, this decisionmaking body will exercise the right of disposal regarding the means of



production through economic means. The main duty of state representatives is to put forward relevant policies and suggestions. The principle of democracy must be adhered to in the formulation of economic decisions. Representatives from various quarters will have legally protected veto power over suggestions put forward by state organs in charge. When their suggestions are vetoed, state representatives will be required to put forward new proposals for review within a specified length of time.

Third, enterprise employees will exercise their possessive rights over the means of production through workers' congresses and will enjoy the corresponding right to enjoy benefits, that is, the right to collectively possess the profits made by their respective enterprises.

Fourth, the fact that the status of enterprise leaders or management as legal representatives is inviolable means that the independence they enjoy in exercising their control rights over the means of production will be protected by law. Without the consent of the majority of deputies to the workers' congress, the absolute authority of enterprise leaders in decisionmaking, management, and command cannot be subverted. Through their own management and command activities, enterprise leaders will obtain the income due to managers, which is above the wage level for the average worker.

The form of ownership by the whole people described above, where the right of disposal of the means of production is not directly exercised by state administrative organs (or economic leadership organs) but by economic organizations in their stead, is indirect state ownership. The major distinctions between indirect state ownership and contractual state ownership are as follows:

First, under indirect state ownership, the separation between ownership and operational rights is even more thorough. Under contractual state ownership, state organs in charge still maintain some direct intervention power over operational rights through the conclusion or amendment of contracts. Under indirect state ownership, however, no direct intervention over the operational rights of enterprises will be possible. The intentions of the state must be approved by the economic decisionmaking organs, which will not be state appendages. Representatives from various sectors other than the state will represent the wishes of different quarters. Their duty will not be to fawn upon the state organs.

Second, under indirect state ownership, the economic benefits obtained by the state will be restricted to tax revenue and interest on state-owned assets. The profits obtained by the state from enterprises under contractual state ownership will be forfeited under the new form of ownership. Theoretically, this means that the state will give up all attempts to intervene in operational rights over the means of production under this indirect form of ownership. In practice, however, this is possible because, according to this author's view, the state will no longer

play any direct part in the organization of expanded reproduction under indirect state ownership. Even where capital construction projects which are of importance to the overall situation and which involve basic sectors are concerned, the competent state administrative organs and industrial departments will no longer be directly responsible for their implementation. These projects will be carried out by the abovementioned economic decisionmaking bodies, using financial means and other economic levers at their disposal to mobilize and organize public funds (mainly enterprise funds). Apart from shouldering the responsibility of actively investigating, assessing the feasibility, and making suggestions regarding these projects, the state's direct economic functions will mainly be restricted to national defense, education, public health and other public services.

What is the relationship between indirect state ownership and the shareholding system? On a theoretical level, I think that as far as its perfect form goes, the shareholding system is a practical form of indirect state ownership. Of course, we should take note of the fact that under existing conditions in China, efforts to switch our large and medium enterprises to the shareholding system will still be beset with many practical difficulties. A major difficulty is that the overwhelming majority of the shares will be in the hands of the state. If shareholding companies and their boards of directors are organized according to this ratio, they will be nothing more than a refurbished version of the conventional system of direct state ownership, because the state will have complete control of practically all shares. Indirect state ownership as envisaged by this author entails the severing of all direct ties between state organs in charge and share rights in respect of whole-people assets. This, I think, will take time. When conditions are ripe, we can proceed to reorganize the enterprise operation system in accordance with shareholding system principles. By then, the share rights in respect of whole-people assets, as envisaged by this author, will be in the hands of economic organizations which exercise the right of disposal in respect of these assets on behalf of the state and not in the hands of the state. These economic organizations will decide on the subscription or transfer of whole-people asset shareholding rights. Although whole-people asset shares will still constitute an overwhelming majority, it will no longer be possible for the state to use its controlling share rights at will to push enterprises to act one way or another in their operational activities. Thus, if the state still has direct control over the whole-people asset shareholding rights of enterprises, such a nominal "shareholding system" is in fact just a variation of direct state ownership and still has all the drawbacks of the conventional economic system. The shareholding system of indirect state ownership alone is the target mode for the reform of our enterprise system. Theoretically establishing the shareholding system as the form in which indirect state ownership is to be put into practice will be



of great help to our actually achieving the orientation for the reform and development of enterprises under whole-people ownership.

Indirect state ownership is the development of contractual state ownership. The formation and perfection of contractual state ownership will create the necessary conditions for the transition to indirect state ownership. Under contractual state ownership, the operational capacity of enterprise leaders will be fostered. This capacity will be the single most important subjective condition for enterprises to survive and develop as independent operators in market competition under conditions of indirect state ownership. In exploring the road to reform, we must not overlook the possibility permitted by actual conditions and plot the blueprint for reform simply with good intentions. Contractual state ownership should be consolidated and developed for a considerably long period of time to come. We should not hastily try to make the transition to a new enterprise system. This is something we must bear in mind. Indirect state ownership is the long-term objective for the development of state ownership, not its immediate objective.

### **III. Establishment of Mature Social Ownership With Socialist Consortiums as a Leading Factor**

Indirect state ownership is not the ultimate destination of whole-people ownership. Under indirect state ownership, a number of new factors will gradually emerge and build up. These factors will ultimately lead to a fundamental change in the form of whole-people ownership in the socialist society and bring about the birth of a new system of whole-people ownership, namely, mature social ownership.

Mature social ownership is a type of whole-people ownership. Under this system, the state will not only forsake all ownership functions but will renounce its status as owner. Both the owner status and ownership functions will be returned to the true owners of the means of production, that is, the whole society and all the people. For the state, the forsaking of owner status means that it will no longer be entitled to interests on whole-people assets. State revenue will be restricted to taxation levied on enterprises to satisfy the need for public services. The enterprises, for their part, will be the actual owners and direct operators of the means of production under whole-people ownership. However, this does not mean reducing whole-people ownership into ownership by enterprises, because the whole-people nature of this new form of ownership is guaranteed by the following three mechanisms:

First, economic coordination. The social consciousness of the community of free individuals which will gradually be developed in enterprises will have been strengthened and the operational activities of enterprises will have consciously approached the orbit of social needs. On the other hand, the economic decisionmaking body jointly organized by representatives from financial and

entrepreneurial circles, public opinion organs, economists, and other quarters, which exercised ownership functions over the means of production on behalf of the state under indirect state ownership, will become the new economic coordination center of the whole society. Although it will not exist as the main body of ownership, the full development of the market and the application of information technology in market organizations will provide this coordination center with ample means and capability to effectively regulate the operation of the economy. It will have cut itself off from "the state" and become a "social" institution, a "coordination" device. By that time, the main function of such a state, will be to develop culture, education, public health, social security and other welfare undertakings. That part of the net income of enterprises, after allowing for taxation and remuneration for employees, will be at the disposal of enterprises. Enterprises may make use of these funds for production and expanded reproduction purposes.

Second, in terms of internal relations, the rights of laborers as masters of their enterprises will set the norm for social habits. The enterprise leadership will be directly elected. Laborers will have full freedom of employment and the freedom of employees to change their profession will apply to society as a whole. This freedom will also be the embodiment of the whole-people and social natures of the direct integration of laborers and the means of production.

Third, although in abstract terms ownership and operational rights will be returned to enterprises under mature social ownership, what this actually means is that they will once again be united on the microeconomic level. It is on the basis of our looking on the state and enterprises as two levels that we say ownership reform begins with the separation of the two rights and ends with the unity of these two rights. This does not, however, mean that individually the enterprise is the sole owner of the means of production and funds. In my opinion, under mature social ownership, "owners" can no longer be found in society as a whole. "Ownership" will still exist but owners will cease to be visible. We envisage that under indirect social ownership, the economic ties between enterprises which are determined by organic ties produced by society will be further developed. Interpenetration and the interflow of funds will become a universal phenomenon and the system of mutual participation by enterprises will be intensified in two directions, vertically and horizontally. It will be possible to intensify and develop this process under indirect state ownership because, by that time, enterprises will truly be able to free themselves from the shackles of direct state ownership and will also be able to independently develop interrelations in accordance with the intrinsic requirements for economic development. Property rights in society as a whole will be integrated like a spider's web. Eventually, the moment will come when no enterprise will be its own owner or the owner of other enterprises. In other words, no enterprise will be in a position to call itself the owner or claim to be the owner of another

enterprise because its ownership has yet to be proved. All enterprises may be involved in many other enterprises and they themselves may be participated in by many other enterprises. No one is the owner and yet it seems that everyone has ownership rights. This is precisely the essential character of mature social ownership. This shows that the society and people as a whole are the only true owners.

An important distinction between mature social ownership and "social ownership" in concept, but enterprise ownership in reality, currently under discussion among the theoretical circles and practiced in some countries, lies in the fact that enterprise ownership is characterized by the dispersed ownership of the means of production by numerous independent enterprises. On the other hand, social ownership, which has gradually grown to maturity on the basis of indirect state ownership, represents a kind of social possession of the means of production and the direct integration of labor and the means of production in society as a whole.

Under mature social ownership, socialist consortiums will be the leading factor in the interpenetrating and spider web-like enterprise stratum.

Here, I wish to solemnly put forward the concept of "socialist consortiums." In my opinion, socialist consortiums will play an important role in our future reform and construction. The cultivation of socialist consortiums will, in all likelihood, be the single most powerful booster and, hopefully, orientation for the reform of China's economic system.

Socialist consortiums are in fact socialist concerns and trusts. They are formed in the course of mutual penetration, interweaving, fusion, or in participation between financial institutions (banks, investment companies, and the like) and enterprises. In theoretical terms, the concept of socialist consortiums is inspired by those phenomena found in our economic life following the development of capitalism beyond the stage of imperialism, which not only reflect changes in the capitalist relations of production but also general patterns of large-scale socialized commodity economy. The evolution of the banks from ordinary middlemen into all-powerful monopoly groups entails factors of historical progress. The mutual participation, penetration, and fusion of financial institutions and industrial organizations represent inevitable trends in the development of the commodity economy to a higher stage. This is not just a question of the pursuit of profits by financial capital and industrial capital, but is primarily a question of a socio-economic need arising from the fusion of financial institutions and industrial organizations after social production has reached a given stage of development. This being the case, it is by no means sheer nonsense to talk about organizing socialist consortiums in a given stage of the development of the socialist commodity economy development. Socialist consortiums can play a positive role in macroeconomic control because, when a huge socialist consortium has emerged in a particular sector of

production or when several such consortiums have emerged, they will already have achieved a basic "understanding" of the situation regarding supply-demand relations, resources, and the market in society as a whole and will be able to carry out production in a proportionate way on the basis of economic coordination. Socialist consortiums will be the leading factor in the mature form of social ownership which will mainly find expression in two respects: First, socialist consortiums will have the ability to shoulder the development of expanded reproduction and the basic industries on the macroeconomic level (such as railroads, telecommunications, and energy) because they control huge financial and material resources. Second, socialist consortiums will also turn a large number of enterprises into their own subsidiary companies through participation and other means and will exert powerful influence over the operational activities of the latter.

Mature social ownership with socialist consortiums as the leading factor will be a new form of whole-people ownership. Its emergence will imply the end of state ownership. Here, one problem, namely, the relationship between the dying out of state ownership and the dying out of the state, needs to be clarified.

Ten years ago, some Chinese scholars with foresight and sagacity first put forward the question of reforming the conventional system of state ownership. They took as their ideological weapon the following much quoted lines from Engels' "Anti-Duhring": "The first action taken by the state as the true representative of society as a whole is to take possession of the means of production in the name of society. This is also the last independent action it takes as a state." In terms of its orientation, this criticism ought to be affirmed. However, it is inadequate in the sense that it fails to clarify the pattern of the self-evolution of state ownership and fails to see that, in addition to the conventional form of direct state ownership, state ownership may also assume such forms as contractual state ownership and indirect state ownership. Actually, in terms of logic, the last independent action taken by the state as the state, that is, as the tool of class oppression, does not preclude the series of actions taken by the state "as the representative of society as a whole" after "the first action." Other comrades made their point from the opposite stance. They held that the state would not die out in the socialist stage and that state ownership would exist as long as the state existed. They asked: Who other than the state can represent social interests?

In my opinion, the dying out of state ownership does not have to come after the dying out of the state, just like not all states necessarily have state ownership. In the long history of the feudal society and the capitalist society, state ownership had not become a universal form of ownership. Whether or not state ownership ought to be preserved depends on whether this form of ownership can satisfy the needs for the development of the productive forces. The demise of the state will depend on even more complicated factors, including great harmony in

the whole world. The demise of state ownership represents a formal change in the economic foundation, while the dying out of the state represents a fundamental change in the superstructure. Under the future system of social ownership, state ownership will come to an end but the state will still exist and still be the representative of social interests. Its defense functions and functions developing culture, education, public health, social security, and so on, will reflect this identity. In terms of ownership of the means of production, the development of laborers from a class in itself to a class for itself will have reached such an extent that they will exist directly as the main bodies of ownership and will no longer need to be represented by officials.

From this analysis, we know that the evolution of whole-people ownership of the means of production will go through three basic historical stages and that contractual state ownership, indirect state ownership, and social ownership, in reality as well as in name, will be the three forms for realizing whole-people ownership after direct state ownership has stepped down from the stage of history. How long will each transitional stage last? I can boldly predict that each of these transitional forms will have a fairly long life cycle. Thus, we must strive to avoid excessively frequent changes in ownership reform. Marx once said that a relationship of production will not die out before its potential productivity is released. I think this also applies to the economic system and the enterprise system. In my opinion, conscientiously studying the objective trend and objective pattern of the reform of enterprises under whole-people ownership and making unremitting effort to push forward this process with policies and specific measures which conform to this pattern will be one of our arduous and protracted missions.

#### Footnotes

1. Lenin: "The State and Revolution," *Selected Works of Lenin*, Vol 3, People's Publishing House 1982 p 258.

2. Lenin: "The Social-Democratic Party Land Program During the First Russian Revolution," *Collected Works of Lenin*, Vol 13, p 243.

#### Roundup of Ways To Enliven Market

91CE0549A Sanming ZHONGGUO JINGJI WENTI  
[CHINA'S ECONOMIC PROBLEMS] in Chinese  
No 2, 20 Mar 91 pp 64-66

[Article by Chen Yihua (7115 1942 5478): "Roundup of Viewpoints on Question of How To Stimulate the Market"]

[Text] Last year one of the popular topics of conversation in economic theory circles was the problem of the market slump. From different angles everybody sought the various causes of the slump and put forward many countermeasures, suggestions, and opinions for starting up the market. They are roughly summed up in the following viewpoints:

The first viewpoint is that the fundamental cause of the market slump was not that the total demand was insufficient, but rather that there is a structural problem in that the inappropriate industrial structure and product mix do not suit China's already changed demand structure. The reason they do not is very simple. First, China's economy is still a shortage economy, and the basic pattern in which total demand exceeds total supply has not changed. From a look at the demand aspect we see: (1) Although the scale of investment in fixed assets has shrunk as compared with that in 1988, it is still 80 billion more than the originally planned 330 billion, and the task of retrenchment in basic construction has not yet been completed. (2) Although the growth of consumer demand has slowed, it is still much faster than the rate of production growth and the increase in the labor productivity rate. (3) There are now 234.4 billion yuan of currency in circulation. Even if this is only an increase of 9.8 percent over that of the previous year, since 1984 there has been an excessive increase in the issuance of currency, and the excess amount of currency in circulation has not been absorbed. (4) The total amount of urban and rural reserves is now 600 billion yuan, and the ready cash in hand is 150 billion yuan. The surplus buying power of more than 700 billion is a latent threat on the market. The current market slump is not a total slump. The sales of some products are still brisk, and some new products on the market that satisfy needs and are multifunctional are still being snatched up. Therefore, people who hold this viewpoint advocate that invigorating the market must begin with an adjustment of the economic structure. The specific measures for this are:

1) We must make up our minds to eliminate some enterprises that consume a lot of energy, raw materials, and foreign exchange, that produce high-priced products of inferior quality that have no market, and that have incurred losses for a long time. In line with the actual circumstances we should close them, have them stop production, or transfer them. We must conscientiously preserve as many as possible of the enterprises that consume fewer raw materials and that get good economic returns, and small and medium-sized enterprises that produce daily necessities. 2) Faced with a market that has "hard spots amid softness and soft spots amid hardness," we must continue to insure that the total investment in fixed assets and the consumption fund be controlled, that the investment in basic industries be greatly increased, and that the expansion of processing industries be restrained. 3) We must adjust the product mix and vigorously increase the production of commodities that sell well and satisfy needs. Making use of market information, we must promptly, in line with the demand for rationalizing the industrial structure, adjust production and the product mix to satisfy the market's requirements in assortment, variety, and specification; and as much as possible develop more standardized products that are original, interchangeable, and improved. 4) Banks at all levels must, proceeding from the demand for adapting the product mix and under the

premise of macro retrenchment, in the adjustment of structure and the optimization of funds investment follow the principle of "differentiating treatment and backing the selection of the best." They must impose rigid restrictions on the demand for funds for blindly producing and buying commodities that do not sell well and satisfy needs, must strictly control the supply of funds for commodities on the market in which "stocks are greater than sales" and "production is greater than sales"; and should practice a "policy of tilting" in the supply of funds toward industrial and commercial enterprises that produce and buy commodities that sell well and satisfy needs, and within their capacity for supplying funds, give priority to and focus on giving these enterprises their support, and through the optimization of the loan structure promote the rationalization of the production and marketing structures.

The second viewpoint is that the true cause of the market slump was the slowness of technological progress, the most fundamental cause of the imbalance in structure was that the technological content of consumer goods was excessively low, and that the distance between the technological level of consumer goods and the people's level of consumption had been lengthened, i.e., production and consumption became estranged. Comrades who hold this viewpoint think that the optimal point now for injecting stimulation funds should be the technological transformation of enterprises. Through a selective increase of technological transformation funds we can promote the improvement and updating of productions and attract part of the present buying power, and can also expand part of the demand, thereby directly or indirectly solving the market slump problem.

With regard to the question of how to raise the funds for technological transformation, many comrades think they should be raised in all directions and from many angles, and that a selection can be made from the following measures:

- 1) Step by step and in a planned manner increase the depreciation rate on fixed assets and accelerate the circulation and turnover of fixed assets and, on this basis, increase the rate of input of depreciation funds in technological transformation.
- 2) Improve the tax and expenditure systems in order to give more preferential treatment in taxes and expenditures to technological transformation enterprises and projects.
- 3) Expand the importation of foreign capital and increase the proportion of foreign capital input in technological transformation.
- 4) Open up and develop the financing and leasing businesses in order to use new means to raise funds for technological transformation.
- 5) Improve the funds system by squeezing out part of the working capital of bloated enterprises and using it for technological transformation; and, at the same time, let the enterprises, by issuing bonds and other measures, to raise from society technological transformation funds.
- 6) The five to 10 percent of direct increase on fixed deposits in banks can be retained and given to basic-level banks, which can extend some technological transformation loans of

100,000 yuan or less, in line with the actual circumstances of lower investment and faster results in small- and medium-sized enterprises, to these enterprises so that, without effecting a major transformation, they can adjust their working equipment and add the necessary equipment for organizing the production of commodities that sell well and satisfy needs. 7) There should be a policy of controlling fixed assets in the period of reform and retrenchment, so that the transfer to lower levels of the authority to examine and approve technological transformation projects allows the prefecture city level to approve technological transformation projects of 100,000 yuan or less and the county city level to approve such projects of 50,000 yuan or less. In this way the localities will have a certain flexibility and policy decisions on adjusting the product mix will be made more quickly.

The third viewpoint maintains that to define the market slump as a problem of structure is somewhat one-sided. The current market slump is not only of a structural nature; it is also of a general, comprehensive nature. This is because if the market slump were only of a structural nature, the goods that sell poorly and the goods that sell well would roughly cancel out each other, and the overall market supply and demand would be in balance. The actual situation is by no means like this. Comrades who hold this viewpoint think that the cutback in demand was the most fundamental cause of the market slump, for the following reasons: (1) The policy of overall retrenchment lowered the people's price expectation and income expectation, intensifying their psychology of holding onto money and waiting to buy goods and their psychology of guarding against a drop in their standard of living. This caused a big rise in saving deposits and a big cutback in consumer demand. The cutback in consumer demand was bound to cause a further drop in the production of consumer goods, and then go on to cause a drop in the production of capital goods with a further reduction in income. As a result, a cumulative process of continuing cutbacks in demand was formed. (2) The policy of retrenchment caused the profit expectation of production enterprises and commercial enterprises to fall, and this fall was bound to cause a continuing reduction in the output of industrial enterprises and the replenishment of stocks of commercial enterprises, and a further reduction in the demand for capital goods and in the worker's income. Conversely, it also adversely affected the production of enterprises, with the result that a cumulative process of contracting demand was formed. (3) The reduction in demand and the overstocking of products slowed the rate of enterprise funds turnover and the rate of currency circulation, which in turn caused a further sag in the level of total demand and made the market slump even more serious. (4) After looking at the present situation, we see that when "stimulation funds" are tilted toward the production link, after the completion of only one production cycle a new situation of overstocking arises; when "stimulation funds" are tilted toward the commercial link, they can only play a role of overstocking products and moving

stocks around. Therefore, these comrades advocate that the starting up of the market must first proceed from an increase in the final demand, and that the state should switch the link in which it injects funds from the production domain and the circulation domain to the final demand. The specific measures for this are:

(1) Appropriately enlarge the scope of the state's investment in basic industries, basic facilities, as well as technological transformation; (2) Appropriately loosen the controls on the buying power of social groups; (3) Extend loan to low- and middle-income families; (4) Lower the prices of some commodities; (5) Open up new consumption domains; (6) Control savings at a rational level, and encourage people to consume in an appropriate measure.

The fourth viewpoint is that the fundamental cause of the market slump was the blockage of the circulation link, and thus it is advocated that stimulating the market begin with the circulation domain. Because commerce is the bridge and link uniting production and consumption, the commercial link should be selected as the beginning point, and commercial enterprises can, in line with market needs, choose the best when they replenish stocks and thereby expand sales. In this way the problem of product overstocking in some industrial enterprises and funds shortage in some production enterprises can be solved, thereby obtaining the dual effect of "dredging" triangular debts and invigorating economic work. The specific measures for this are:

(1) Increase the issuance of state-run enterprise loans, letting state-run commerce buy up and store enterprise products and then wait until they are needed by the market before putting them in circulation. (2) Open wide the channels of circulation. Besides giving full play to the role of the circulation channels of state-run enterprises, the state must give full play to the auxiliary role of collective and individual commerce. (3) Continue to rectify the order in the circulation domain. (4) Based on the changes in the consumption structure, timely feed back market information to production departments so that they can increase the supply of goods that sell well and satisfy needs, and also can satisfy the need more diversified and multilevel consumption. (5) Enhance the publicizing and briefing on the function and use of products; forthrightly answer customers' questions about product quality, technical performance, upkeep, and maintenance; and guide the consumer to make intelligent purchases. (6) Organize sales of different kinds and occupy vacant positions. (7) Improve service quality and attitude. (8) Reform the circulation system. (9) The government must take vigorous administrative and economic measures to break the blockade between areas and safeguard the formation and development of a unified market for the whole country.

The fifth viewpoint is that stimulation of the market should focus on the rural market. The reasons for this are: (1) The rural market is basically part of the final market for consumer goods, and invigorating the market

must begin with making a breakthrough in the final market for consumer goods. (2) In China the per capita level of consumption in the rural areas is lower than in the urban areas, but the rural population is large and the total volume of its consumption is still 60 percent higher than that of the urban population. (3) The rural consumer domain is broader than the urban consumer domain, and housing and medical treatment fall within the scope of individual consumption; also, some markets for industrial products are mainly located in the rural areas, e.g., the market for capital goods. (4) From a look at the consumption level, we see that in the rural areas the pace and level of life and consumption is a "half beat slower" than in the urban areas, and that the consumer goods caught in the cities "ebb tide" could find a market in the rural areas. The specific measures for this are: from the long-term view stimulation of the rural market depends on the state's taking complete sets of comprehensive measures to expand the investment in the rural areas in order to contain the expansion of the "scissors differential" in the prices of industrial and agricultural products and to raise the level of the peasant's real income. The following measures should be taken to start up the rural market:

(1) Reduce the existing burden on the peasant by seven percent. (2) Increase the amount of cash for procurement of agricultural and sideline products in order to increase the peasant's real buying power. (3) Expand the amount of commercial credit in the rural areas, particularly that of the rural basic-level supply and marketing cooperatives, in order to satisfy the demand for funds going to the countryside for industrial products that sell well and satisfy needs. (4) Correctly guide the peasants to consume rationally and in an appropriate measure. (5) Rectify the rural market by resolutely punishing those who engage in driving up prices, reselling at a profit inferior or bogus goods, and other abominable behavior that harms the peasants' interests; by expanding commercial credit in the rural areas; by making goods flow smoothly; and by making the markets flourish. (6) In extending loans appropriately tilt toward agricultural products and agricultural basic facilities.

The sixth viewpoint is that the appearance of the market slump shows that China's mechanisms for economic growth at high speed but with low results could not meet the need for further development of the productive forces and had landed China in a predicament. Therefore, to overcome the market slump, adjust the product mix, and promote changes in the mechanisms for economic growth, we must further deepen the reform of the economic system with the main parts being price reform, enterprise system reform, banking system reform, financial system reform, and planning system reform. We must integrate well the improvement and rectification with the deepening of reform. If we are able to correctly use the opportune moment for improvement and rectification, and conscientiously put a little more effort into deepening the reform of the economic system, then even if the economic growth rate over the past several years

has been less than six percent, the long-term healthy development of China's national economy in the future will benefit. This, I think, is the correct way for fundamentally eliminating the market slump.

### **Establishing Socialist Enterprise Groups**

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[Article by Huo Ronghua (7202 2837 5478), manager of the Jilin Chemical Industrial Company: "Building Chinese-style Socialist Enterprise Groups"]

[Text] The Jilin Chemical Industrial Company is a large-scale chemical industrial base built by the state during the First Five-Year Plan period. After over 30 years of construction and development, it has become a transregional and inter-trade comprehensive chemical industrial enterprise group. The inner-circle of this group has 31 enterprises and establishments, 128,000 employees, 298 sets of productive equipment, and over 640 products; the secondary circle has five joint ventures including the Senji Sports Goods Limited Company; and the periphery has the Songjiang Petrochemical Development Group. A salient feature of our company in organizing and developing the enterprise group in the past few years is using the unified property management method to carry out transregional and inter-trade merges of enterprises, thus further strengthening the nucleus of our group and increasing our company's management power. In 1990 the productive enterprises in the inner-circle of this company produced 3.11 billion yuan in gross industrial output value, an increase of 4.15 percent over the previous year; recorded 1.281 billion yuan in tax payment and profit delivery, an increase of 4.23 percent over the previous year; and earned 4.98 billion yuan in sales income, an increase of 6.47 percent over the previous year.

Considering large enterprises contracting small enterprises as the starting point, breaking through the "three unchangeables," and establishing and developing enterprise groups

The Jilin Chemical Industrial Company is the basic chemical raw material type of enterprise. Establishing and developing the enterprise group is not only a need for its own development but also an objective demand for rapidly raising the level of productive forces and carrying out specialized cooperation and socialized large-scale production. Because of this, developing the enterprise group is a feasible way to bring into play the advantage of the company being a raw material base, to vigorously develop advanced chemical industry, to raise the processing level of products, and to further improve economic returns. To develop enterprise groups, we may regroup, in accordance with the state industrial policy, existing property in society and carry out specialized division of labor and cooperation among enterprises of different management scales. This can support and give

an impetus to the development of medium and small enterprises and rapidly increase the economic and management strength of the group and enable large enterprises to accomplish even more.

Contracting local medium and small enterprises on the basis of integration. In 1987 our company first based itself on the advantage of basic chemical raw materials and used the method of large enterprises contracting small enterprises to carry out intensive integration of 13 medium and small chemical industrial enterprises owned by Jilin City. It used the system of unified management to organize and establish the Jiangcheng Chemical Industrial Headquarters. The unified management system is that under the precondition of unchanged relations of property rights, the 13 enterprises gave up the management right and enabled our company to exercise unified leadership, planning, management, and control over their personnel, financial and material resources, production, supply, marketing, party and government organizations, and people. This also enabled our company to carry out specialized division of labor between enterprises of different affiliation and change direct government control of enterprises to the management by our company, thus accelerating the separation of government functions and enterprise management. At the time this was considered a fairly high starting level.

However, since the change is limited only to the management right and the "three unchangeables"—ownership, affiliation, and financial delivery channel—remain unchanged, great obstacles still exist in enterprises' in-depth structural readjustment, technological transformation, and long-term development. To facilitate the development of enterprise groups, we must break through the "three unchangeables."

*Using the system of unified property management to carry out transregional and inter-trade merges of local enterprises.* When solving the property right issue which involves the interests of all fields, we should handle well the interest relations of all fields. In 1989 under the concern and support of Jilin Province and the Ministry of Chemical Industry, our company made significant progress in the development of enterprise group. We used three methods to put the property of merged enterprises under unified management. The first is compensated mergers. The second is assuming their debts and administrative transfers. The third is long-term compensation and changing enterprises' affiliation. After the 12 pharmaceutical enterprises of Liaoyuan City had their fixed assets appraised by the Jilin Provincial State Property Control Bureau and then sold to our company at their net value of 75 million yuan, they were organized into the Liaoyuan Headquarters of the Jilin Chemical Company. Due to mismanagement, the Jilin Heavy-duty Machinery Plant whose fixed assets had a net value of 24.43 million was about to go bankrupt before it was incorporated into our company under the instruction of the Jilin Provincial government. Our company assumed its debts and turned it into the

Heavy-duty Machinery Plant of the Jilin Chemical Company. As for the Jiangcheng Chemical Industrial Headquarters of the Jilin Chemical Industrial Company which has been under contract management for three years, our company carried out the system of unified property management in the way of changing affiliation, changing the nature of property ownership of the two collective enterprises, and giving long-term compensation to the Jilin City treasury.

*Centering on Quality Control, Exercising Decentralized Level-by-level Management, and Take the Road of Overall Optimization* After an enterprise group is established, we need to do many more painstaking work, especially the management of the group. The management model of "centering on all-round quality control, promoting the optimization of the enterprise as a whole, and taking the road of qualitative development" is the summary of business management of our company, especially our 10 years of experience in all-round quality control. It is the concrete measure for promoting the group management and overall optimization. The decentralized level-by-level management system is a practical choice for our company to satisfy the needs of the management of a super-large enterprise group.

*Using people as the basis for strengthening the concept of quality.* Strengthening the quality concept of all staff and workers is the prerequisite and basis of our company to raise the managerial level of the enterprise group. Concentrating on the education of quality concept is the concrete expression of our company's people-based management concept. First, we carried out education in the management model. "Using people as the basis, putting quality first, optimizing the enterprise as a whole, and putting efficiency first" are principles for running our plants as well as the contents of our management model. Carrying out education in management model is to let the broad masses of staff and workers, especially leading cadres, to have a good understanding of the management concept that is centered on quality. Second, we carried out education in quality skills. Third, we carried out education in quality responsibilities.

*Smoothing out relations and exercising decentralized level-by-level management.* While educating all staff and workers on quality concept, in accordance with the production pattern of the chemical industry and the characteristic of relative managerial independence of grassroots units, our company first smoothed out the management system by setting limits on the management authority of our company, headquarters, and enterprises under the jurisdiction of headquarters. Then our company improved the management system by implementing the management method of "centralized policy decision and decentralized, level-by-level management." It also formulated "Several Rules and Regulations for the Financial Management of the Jiangcheng Chemical Industrial Headquarters and the Liaoyuan Headquarters" and the "Provisional Regulations for the Decentralized Management of Supply and Marketing

Operations of the Jiangcheng Chemical Industrial Headquarters and the Liaoyuan Headquarters." Our company controls only the level of headquarters. We are in charge of comprehensive planning, production balance, and fund guidance. We coordinate and make arrangements for products produced as a combined efforts of the region, increase the operating rate of equipment, make overall development plans, and examine and approve the development of new products and technological transformation projects of headquarters. We also regulate funds through our internal banks and implement the general verification system. As for market forecast, management decisions, and supply and marketing decisions, we delegate power to grassroots units level by level and allow individual plants to practice independent management and accounting. By so doing we have combined the system of our company's macroeconomic management with the flexibility of the microeconomic management of plants, thus accelerating the development of our enterprise group.

*Exercising strict management to facilitate overall optimization.* To raise the managerial level of the group as a whole, all headquarters and the main plants of our company have carried out the campaign of "choosing, comparing, and attaining goals." First we started with basic work. With focus on standardization, we strengthened basic work including metrological survey, information, group improvement, and examination and approval so as to perfect the quality guarantee system and do good job in basic management work.

#### **Centering on Economic Returns, Readjusting Structure, and Exploring Domestic and Foreign Markets**

*Developing the enterprise group has created conditions for structural readjustments to be carried out between and within enterprises.* The inner-circle of the group of our company has a total of 74 large and small production enterprises, and the potential of increasing efficiency through structural readjustment is great. In order to help medium and small enterprises achieve the management and economy of scale, our company has gradually carried out the readjustment of organizational structure and product mix. This has not only helped medium and small enterprises better overcome difficulties and achieve development in the rectification and improvement campaign but also facilitated the rational circulation of existing capital funds and productive factors and created favorable conditions for our enterprise group to get onto a sound track, develop advantage in the variety of products, and explore domestic and foreign markets.

*Readjusting organizational structure and developing specialized large-scale production.* In the past two years, due to the shortage of funds and a sluggish market, enterprises had great difficulties in production and management. To develop the overall advantage of our group, in accordance with the actual conditions of individual enterprises, our company carried out systematic structural readjustments of pharmaceutical, rubber processing, machine-building, electronics, antiseptic, and



organic silicon industries and developed specialized large-scale production. In 1989 our company first merged a tire plant and a rubber machine-building plant which both belonged to the Jiangcheng Chemical Industrial Headquarters. The rubber machine-building plant which mainly produced the tire forming machine was compatible with the tire plant. After it was merged into the tire plant, it overcame the problem of being "large and complete" and being "small and complete," and expanded economic strength. In 1990 after eliminating various profit-reducing factors, the tire plant strove to develop production. Its gross annual industrial output value was 119.15 million yuan and its tax payment and profit delivery were 27.66 million yuan.

*Readjusting product mix and increasing the input-output efficiency.* In readjusting product mix, we emphasized integrating oversupplied products with undersupplied products and leading products with supplementary products and did a good job in the forecast of two markets. Our company has over 640 products which have formed a definite advantage of variety. Our company used this advantage, readjusted product mix, strove to open up markets, and increased economic efficiency. First we gradually eliminated and restricted the production of a number of products which consume a great deal of energy, produce little returns, and cause serious pollution. Second we used the market as a guide and effectively organized forces to increase the production of marketable goods. We tried in every way to increase the production of undersupplied products and their economic returns. This item alone increased our company's profits by 29.57 million in 1990. Third we vigorously developed new products and concentrated our energies on items that have a "short start up time, fast returns, and high effectiveness." In order to accelerate the readjustment of product mix, in 1990 our company developed a total of 44 products, of which, 37 have been put into operation and yielded results. We also carried out 18 projects that had "short start up times, fast returns, and high effectiveness. This created over 26 million yuan of economic returns a year. The two headquarters of our company began the production of nine new products and carried out five projects known as "1211" projects—namely "1 yuan of investment, 2 yuan of output value, 1 yuan of tax and profit delivery, and yielding returns in one year"—and created over 5 million yuan of tax payment and profit delivery. They succeeded in using little investment to produce great output and fast returns. They increased the input-output efficiency and the adaptability and development ability of our products on the domestic and foreign markets.

**Considering Technological Transformation as the Basis, Making Overall Planning, and Depending on Science and Technology for Development**

After the enterprise group was established, our company conscientiously implemented the principle of "reorganizing first and transforming second," and worked to solve the problems of overlapped production, scientific research, and construction projects while making an

overall development plan for the 1990's and accelerating technological progress and transformation. Our company made an overall development plan for the enterprise group in the 1990. It is called "three-step walk, tripartite balance, and ascending to the third step." In other words, by the year of 2000 we will basically implement the development strategy of achieving the modernization of science and technology, organizing enterprises into enterprise groups, and internationalizing management.

*Establishing multi-processing bases.* In our company's development plan, some fine chemicals are produced in the enterprises of our headquarters. These enterprises have demonstrated greater multi-processing ability and fine chemicals production potential. Our company on the one hand made full use of existing facilities, equipment, personnel, and technology to carry out multiple processing to increase the value of products and on the other hand transferred the development of fine chemicals to the headquarters. Our company once planned to develop the pharmaceutical industry with the raw materials we produced ourselves, but after our integration with 12 enterprises in Liaoyuan, our company changed the plan, used the existing three pharmaceutical plants of Liaoyuan as the basis, carried out structural readjustment, increased the production of primary medical products, and increased our ability to produce over-the-counter medicine. This not only saved our investment but also accelerated the tempo of our company in developing fine chemicals. In 1990 the first pharmaceutical plant alone fulfilled 41.6 million yuan of gross industrial output value and 4.51 million yuan of tax payment and profit delivery, an increase of 32.4 and 128 percent over the corresponding period of the previous year.

*Developing the company's advantage in investment.* The establishment of the enterprise group enabled our company to become the main body of investment. Investing in the enterprises of headquarters is a practical step for our company to further strengthen enterprises in the inner-circle and enable the enterprise group to develop steadily. The Jiangcheng dyestuff plant completed and put into operation an ethyl ammonia equipment which is the largest in China and has an annual production capacity of 2,000 tons. Its technological software and key equipment are imported from the United States. A few years ago, its construction was delayed again and again due to the shortage of funds. After the unified management of property, our company decided to invest in the construction of this project. With our company's designing institute in charge of the engineering design and the chemical construction company in charge of the actual construction work, it took only 1 year to complete and put into operation this project. Ninety eight percent of the product was up to the standards. The Liaoyuan cinefilm plant has had policy-incurred deficits since 1985. To drastically reduce this plant's deficits, our company as the investment center adopted various measures to make investment to reduce its deficits and

enabled it to switch from the production of special light-sensitive materials to the chemical industry and the comprehensive service-production type.

*Relying on science and technology to transform old enterprises.* Most of the enterprises under the headquarters have obsolete equipment, backward technology, high consumption, and low output. Their task of technological transformation is very arduous. Our company developed the advantage in internal scientific and technological development, tightened the integration of science and technology with production, and accelerated the transfer of scientific results into productive forces. As far as the two headquarters are concerned, in order to make their products more competitive on the market, our company adopted a policy to allow them carry out on a large scale technological transformation based on existing equipment and develop marketable products. The xylitol plant of the Jiangcheng Chemical Industrial Headquarters used to be a small plant which always had a deficit since it began operation. Our company invested in its technological transformation and now it has initially achieved a benign input-output cycle.

It has not been very long since our company established the enterprise group, so we still need to continue to improve and explore. However, through the establishment and development of the enterprise group under the unified management of property, we have established the following understandings:

*Establishing and developing enterprise groups under the unified management of property is conducive to expanding backbone enterprises and consolidating the dominant status of public ownership.* The Jilin Chemical Industrial Company is a large-scale backbone enterprise. It should exercise its function as a "leader." The development of the enterprise group has increased our company's management power and the effect of the economy of scale. In 1989 our company (the nucleus of the group) achieved 1.105 billion yuan in tax and profit delivery and 4.06 billion yuan in sales, ranking ninth among 50 large enterprises in China. In 1990 our company paid 856.99 million yuan in taxes and profit delivery, a net increase of 66.78 million yuan or 8.45 percent over the previous year. This shows that strengthening backbone enterprises is conducive to consolidating socialist economic basis and guaranteeing the dominant status of public ownership.

*Establishing and developing enterprise groups under the unified management of property is conducive to enterprises observing the law of socialist commodity economy and mastering the socialist direction of reform.* Enterprise groups established on the basis of large enterprises under the unified management of property not only can give an impetus to the development of small enterprises but also can create conditions for revitalizing large enterprises themselves. They also can better handle the relations between the state, the enterprise, and the individual, give play to the role of all staff and workers in democratic management, stress both ideological and material

progress, and uphold the direction of socialist management, thus ensuring that enterprises will develop soundly along the socialist road.

*Establishing and developing enterprise groups under the unified management of property is conducive to developing specialized large-scale production and smoothly achieving the structural readjustment of enterprises.* It is very difficult to readjust the economic structure. Developing enterprise groups makes it easier to readjust enterprises' organizational structure and product mix. To accelerate the development of enterprise groups, our company will carry out, in accordance with the state industrial policy, further structural readjustment in the pharmaceutical, rubber, and machine-building industries, make production organizations tighter and specialized division of labor more rational, improve the distribution of productive forces, and increase economic returns.

*Establishing and developing enterprise groups under the unified management of property is conducive to combining the readjustment of existing and new assets and considering the former as the basis.* To facilitate the development of enterprise groups, it is necessary to adhere to scientific and technological progress and take the road of intensive potential-tapping. Our company on the one hand focuses energies on the technological transformation and improvement of old equipment in all enterprises and on the other hand makes new investment in science and technology to develop new marketable products and improve the production layout.

*Establishing and developing enterprise groups under the unified management of property is conducive to carrying out the rectification and improvement campaign, deepening the reform, and accelerating the development of local economy.* Our company organized the enterprise group during the period of the state's rectification and improvement campaign. The enterprise group which exercises the unified management of property makes it possible for the leading enterprise to fully develop its advantage in technology, personnel, management, fund, and supplies among the member enterprises of the group and enables them to strengthen their internal management, to smooth out relations with all fields, to improve the management mechanism, and to operate rapidly and effectively.

In the very beginning of 1991, General Secretary Jiang Zemin came to inspect our company. He gave important instructions on revitalizing large and medium-sized enterprises and graciously wrote the following inscriptions: "Build the Jilin Chemical Industrial Company into A Chinese-style Socialist Enterprise Group." This is the ardent expectation and great encouragement of the Party Central Committee on us. Building the Jilin Chemical Industrial Company into a Chinese-style socialist enterprise group is our company's fighting goal for the 1990's. We will double our efforts, plant our feet on solid ground, continue to explore, and strive to build the Jilin

Chemical Industrial Company into a inter-provincial, transnational socialist, modernized enterprise group.

### **Economic Reform in 1990's**

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[Article by Yang Qixian (2799 0796 0341): "Prospects for China's Economic Reform in 1990's"]

[Text] Economic restructuring has been going on in China for 12 years since 1979. In this period, the process has gone through roughly three stages, from having rural reform as the mainstay, changing gradually to urban reform as the central task, to rectification and improvement, which is what is now being emphasized. Among socialist countries, our reform began relatively late, but China's reform, with its unique style and tremendous achievements, has aroused a great deal of interest among the people. In particular, the recently convened National People's Congress adopted the 10-Year Program and the Eighth Five-Year Plan for economic development, since then, various sides have been very concerned about the direction in which China reforms its economy in the 1990's, the central tasks of reform, and its prospects. I wish to briefly discuss the following four problems.

#### **I. Basic Assessment of the Economic Restructuring in the 1980's**

Starting from 1979, and throughout the whole decade of the 1980's, our country's socialist economic construction has made splendid achievements. When compared vertically with the first 30 years after the founding of the nation, this period saw the best economic development in our country; when compared laterally with other countries and regions in the world, our country was one of those experiencing the fastest economic development of the period; when compared with the original Soviet Union and socialist countries in East Europe, whose economies in the 1980's were all in a state of stagnation and retrogression, only our country experienced unprecedented prosperity and rapid growth. It can be regarded as a miracle. Why did such a big contrast occur? People can give various reasons, but there is one important reason which can be fully affirmed, and that is, we have based ourselves on the correct line of "taking economic construction as the center, upholding the four cardinal principles, insisting on reform and opening up," which was adopted by the Third Plenary Session of the 11th CPC Central Committee, and seriously and profoundly carried out a series of reforms on a rigid economic system which was not suited to the development of productive forces. The measure enabled the ownership system, enterprise mechanism, market function, distribution method, and the system of macroeconomic regulation and control in our country to start the process of change; eagerness has surged in various quarters; and economic vigor has markedly improved. Therefore, the whole economy changed from the long-term stagnation which had appeared since the end of the 1950's, to a

historic new period of development. With regard to economic growth rates, raising the people's standard of living, technological advancement, and the condition of the economy's main structure, this period reached or even surpassed other periods in history. This fully indicates that the policy of economic reform and opening up to the outside world is in accordance with the basic interests of the people of the whole country. Therefore, it is wholeheartedly supported and hailed by the great masses of people and cadres, as well as watched and accorded importance by the world.

#### **II. The Relations Between Economic Development and Deepening Reform in the 1990's**

The 1990's is another crucial period for our country's economic development. Whether we can further develop the economy will have a direct bearing on our country's rise or decline, and on the success or failure of the whole undertaking of socialism. Positive and negative experiences over the past several decades prove that to develop the economy, the main motivating force is from reform. That we are determined to deepen the reform, further push various aspects of the reform forward, and really score the results which we should, is an important guarantee for materializing the second-step strategic goal of economic development in our country. This is mainly because, according to the 10-Year Program recently passed by the National People's Congress, by the end of this century, our country's GNP should have doubled again, and the people's standard of living should become relatively well-off. For this strategy to materialize, even if we start calculating from 1988, average annual GNP growth has to reach 5.5 percent; because growth during the period of rectification and improvement will be lower; therefore, in the 1990's, growth has to reach around 6 percent. Among the growth, industry has to grow by 7 percent in order to attain the goal. This growth is attainable in the initial period of economic development when the base is small, and conditions of resources exploration are comparatively good, using the method of high input and low output within the original economic system. For example, from 1953 to 1978, although we experienced the two "twists" caused by the Great Leap Forward and the Great Cultural Revolution, in these 26 years, average industrial growth still surpassed 7 percent every year, and this is good evidence.

However, our country's current industrial scale is 10 times, or several dozen times, or even 100 times larger than in 1952; every 1 percent increase means a great increase in content. To attain an annual growth rate of 7 percent in the production of key energy and raw materials, even if we do not ask for the so-called "leading" growth and calculate on the basis of one-to-one growth, then, each year, we need to increase raw coal production by more than 70 million tonnes, oil by 10 million tonnes, steel by more than 4 million tonnes, and power by more than 400 million kilowatts. Judging from our country's current economic strength and resources condition, this cannot be done. In fact, in the Eighth Five-Year Plan, we have already made arrangements for coal to increase by

only 30 million tons, oil to increase by 1 million tons, steel to increase by 1 million tons, and power to increase by 300 million kilowatts. To ensure a rapid growth in GNP, using such a slow growth in energy and raw materials, the only method is to greatly increase economic returns. For this purpose, it is necessary to speed up the deepening of reform, establish an economic system and mechanism which are suited to socialized large-scale production and the development of a commodity economy, and which are able to effectively promote structural readjustment, technological advancement, and efficiency improvement; it is necessary to rationally use various resources and optimally arrange productive forces, and be able to obtain the largest output with the smallest input. By doing this we can attain our goal. This trend not only convincingly indicates the importance of deepening economic reform, but also the basic outlet for further developing the economy in our country.

### III. The Basic Goal and Main Task of Deepening Economic Restructuring in the 1990's

For the 1990's, our country's goal of economic restructuring has already been clearly defined by the 10-Year Program: Build a new planned commodity economy system which corresponds to the socialist public ownership system, and an economic operational mechanism which integrates the planned economy with market regulation. The main task involves five aspects: Continue to adjust the ownership system, increase vigor among state-run enterprises, construct a market system, straighten out various distribution relations, and establish a new macroeconomic regulation and control system. These several aspects are mutually linked and inseparable from one another, on the one hand, and on the other hand, they cannot all be thoroughly pushed forward together. It is necessary to consider the concrete situations of different periods and localities, proceed from reality, and do so in a planned manner. The general development trend is:

1. On adjusting and reforming the structure of ownership. In the past, our country's economic management was rigid, enterprises lacked vitality. One of the important reasons was irrational ownership of the means of production, separate from China's actual situation, and pursuing the style of unitary public ownership—especially state ownership—in a one-sided manner. Because enterprises were basically owned by the state, various government departments could treat enterprises as “subsidiary bodies” or “beads on an abacus,” with which they could interfere or “move” at will; they could also organize centrally planned purchasing, spending, appropriation, and distribution, excluding the function of market competition and the law of value, thus, adversely affecting production and construction.

Since the reform, proceeding from the actuality that our country is still at the initial stage of socialism, and on the premise of upholding public ownership as the foundation, we have begun implementing the principle of

developing state, collective, and individual sectors all together. Various styles of ownership have developed. However, compared with our country's current level of productive forces, this is not good enough. In the 1990's, we must continue to develop various economic sectors. The basic demand is: The state must continue to own some basic facilities, basic industries, large-scale backbone enterprises, and main public utilities; it will invest in their developments, so as to guarantee a sustained and stable economic development. Ordinary trades, especially medium and small enterprises can be run by townships, towns, and collectives, to adhere to the direction of socialist ownership, to benefit economic invigoration, and to effectively reduce mounting unemployment pressures. At the same time, within the domain permitted by state policy, continue to develop individual and private enterprises, as well as enterprises with “three sources of funds,” as necessary supplements to the socialist economy. Gradually form an ownership structure which is suited to the initial stage of socialism in our country.

2. On reform of operational mechanism among enterprises. At present, enterprises owned by the whole people are not properly managed; they do not have strength, their returns are poor, and they have become a pronounced economic problem. In the 1990's, it is necessary to further transform their operational mechanism through deepening reform, then the problem can be properly solved.

The goal of enterprise reform in our country has been clearly defined by the decision on economic restructuring adopted by the central authorities, that is, to change the shortcomings of excess control over enterprises by the state, and of viewing ownership by the whole people as direct management of enterprises by state organs; and to separate government from enterprises, and ownership rights from operation rights. Allow enterprises to become commodity producers and operators to make management decisions at their discretion and take sole responsibility for gains and losses. They should be equal before competition, which eliminates the poor and maintains the best. This reform involves many aspects of economic management and cannot be accomplished immediately. In the 1990's, we will emphasize different aspects which we will proceed with phase by phase.

During the Eighth Five-Year Plan period, the key job is to continue to implement and perfect the system of contracted management responsibility. This includes: Further implementing and expanding production and operation rights among enterprises, perfecting the factory managers (managers) responsibility system, appropriately reducing enterprises' burdens, and earnestly strengthening internal management among enterprises. On condition that staff basic living standards are guaranteed and social stability is not affected, actively promote contracting, leasing, merging, and share purchases among enterprises; and in a planned manner, organize

competitive enterprise groups, and carry out the necessary steps to close, stop, merge, and transform enterprises, eliminating the poor and preserving the best. By doing this, we can effectively promote structural readjustment among enterprises and enhance the rational movement of production factors, and strive to improve enterprises' efficiency and returns.

During the initial period of the Ninth Five-Year Plan, we can establish interest distribution relations between the state and enterprises of some scales. Apart from a small number of basic industries and backbone enterprises, we can gradually change the current system of handing over a contracted amount of profits, to a system whereby when profits occur, income tax must be paid first according to the law, then, the after-tax profits will be examined for a contracted amount to be handed over, or a system of fee payment according to a certain percentage of the capital employed. We should seriously inspect and assess enterprise assets, reasonably define enterprise property rights, and form a clear management system managing state-owned property. Therefore, we can better protect investors' rights and interests, and lay a necessary legal foundation for enterprises to become economic entities which make operational decisions.

At the end of 1990's, on the premise of having gone through extensive experimentation and having improved legislation in a planned manner, we will promote an enterprise shareholding system based on a public ownership system with shares held by legal entities. Among enterprises, companies with limited liability will account for an absolute majority, while a small number of those with better conditions will develop into stock companies with limited liability. We will gradually build a reasonable system to operate state-owned assets, and an operational and administrative mechanism for modern enterprises suited to the development of a socialist commodity economy.

3. On building a market system. Another important shortcoming of the original system in our country is that, conceptually, a planned economy is set against a commodity economy, that market development is excluded during practice, and that the regulatory function of the law of value is negated, seriously restraining the development of productive forces. In the 1990's, while upholding the state's rational macroeconomic guidance, regulation, and control, it is necessary to carry out further reform of the commercial system and the materials circulation system; to actively develop and perfect the agricultural and sideline products market, the industrial goods market, and the means of production market which already exist; and to continue to explore and develop capital, technology, information, labor, and property markets. It is necessary to break various regional obstacles and departmental separations, and to build a centralized and relatively perfect socialist market system in the country.

At the same time, it is necessary to increase the prices of some basic products, which up to now are too low; to

straighten out the price relations between agricultural and industrial products, and between basic and processed products; and to abolish step by step the "dual pricing system." We must build a system whereby the state indirectly regulates and controls, and the market determines the prices of a large number of commodities and wages, except the prices of energy, communications, and a small number of important agricultural products and basic industrial products, as well as fees for using some public utilities which the state will continue to control and which will be regulated appropriately and promptly according to the law of value and changes in the relationship between supply and demand.

4. On reforming the distribution system. The reform of the distribution system has a direct bearing on the interests of various quarters; it is a reform which must be grasped firmly and which is also very difficult. We should attach sufficient importance to it. The contents are: Build a rational labor system, actively encourage labor departments to introduce to people various methods to seek jobs such as voluntarily organizing themselves for work and seeking jobs by their own efforts to continually reduce the extent to which the state centrally distributes job seekers. Gradually change the current fixed labor system among enterprises to a contract system, and allow enterprises and workers to make their choices within the domain permitted by the state's labor law and specified by contracts, to better develop the regulatory function of the labor market, and to encourage the materialization of the principle of distribution according to work.

Further carry out wages reform. For enterprises, continue to implement and perfect the method of linking total amount of wages and awards to economic returns, and build step by step a system whereby the state exercises macroeconomic regulation and control, various levels perform management duties rationally in their defined capacities, and enterprises make decisions on distribution at their own discretion. For departments and units; distinguish their types of work, implement different wages systems, and practice the method of increasing the total amount of wages in a planned manner along with the increase in GNP. At the same time, we should rationally adjust the income structure for staff, increase the transparency of staff income, strictly levy regulatory taxes on individual incomes, and ease up the phenomenon of unequal social distribution.

Actively carry out reform of the social insurance and welfare system. This includes: Establish unemployment insurance for the unemployed in towns and cities, improve old-age insurance and medical insurance for staff working in enterprises owned by the whole people and collective enterprises; also, based on the principle that fees must be shouldered by the state, collectives, and individuals, and that the percentage of fees differs according to different situations, build old-age insurance and medical insurance for other workers. Gradually promote urban housing reform through increasing rents, increasing funds, selling public housing, substituting

interests with rents, increasing rents above the standard, collecting new amounts of rent for new houses, and encouraging individuals and units to raise funds for building houses, thus, basically materializing the commercialization of houses.

5. On reform of the system of macroeconomic regulation and control. Doing a good job in the reform of macroeconomic regulation and control is a basic guarantee for stable economic development on the one hand, and on the other hand, an important condition for invigorating enterprises and markets. Judged from past experiences in practices over many years, the most important thing to do is to straighten out relations among the planning department, revenue department, and central bank in terms of duties and authority, and gradually establish a management system and mechanism in which these three important departments have clearly defined duties and authority; and a rational division of labor, mutually supporting as well as mutually restraining. Ensure steady economic growth.

Planning system reform. In short, conceptually, we must clearly understand that both planning and markets are means and styles to promote a rational arrangement of resources and the internal contents of developing socialized large-scale production and a commodity economy, not marks distinguishing different social systems. It is necessary to properly and organically integrate planning with the market. When it comes to methods, we must change the mandatory plan which ignores economic laws and which exercises excess control, to flexible and broad plans which conscientiously follows the law of value; we must change the planning which mainly makes arrangements for a large number of construction projects and a concrete quantity of trivial things, to the central task of grasping a balance of total quantity in society, guidance by policy, restraints by interests, indirect regulation and control, to facilitate maintenance of the scientific and effective function of macroeconomic planning, and to fully develop microeconomic vitality and enthusiasm.

Revenue system reform. The key point is, to further perfect the taxation system, have a fair tax burden, and to better develop the revenue departments' role in collecting taxes and in rationally regulating and controlling the economy. On the premise of clearly defining authority, we should gradually change the current system of contracted amounts of revenue being handed over to the state, to a system of distributing revenue between the state and localities, or to a system of distributing contracted amounts of revenue between the state and localities. Build a double budget system, strictly distinguish routine budget expenditure from construction budget expenditure, and prevent deficits in routine budgets. For construction budgets, a certain amount of funds can be borrowed to strike a balance. Spend with an eye on income, to reduce expenditure, and restrict economic expansion.

Financial system reform. The main points are: Further strengthen the central bank's position, and give it the

authority and duty to use the supply of currency, the total scale of credit, preparatory funds, reissuance of loans, standard interest rates, and absorbing and releasing bonds as the means to maintain the stability of the currency value of the Renminbi, and to control inflation. Gradually expand the issuance of bonds and shares, and expand savings for housing, develop old-age insurance and trust investments, and in those cities with better conditions, establish stock exchange houses, so forming various ways to gather funds. Gradually differentiate specialist banks' business of a policy nature from their business of a commercial nature, and promote entrepreneurial operation for specialist banks. This is to develop better finance's role in macroeconomic regulation and control, and increase returns on the use of funds as much as possible.

#### **IV. Favorable Conditions for Materializing Economic Reform in the 1990's**

It is a complicated and difficult task to materialize economic reform in the 1990's. But there are quite a number of favorable conditions, which can be summarized into:

1. The senior and lower levels in the whole country have fully recognized the shortcomings and inadequacies of the original economic system; they clearly understand that if reform is not carried out, the economy will have no outlet. This has laid a relatively good foundation for further promoting reform.
2. The direction, goal, key points, and even some of the policies and measures which must be taken, have been clearly stated in the 10-Year Program and the Eighth Five-Year Plan, and this provides a good blueprint for further reform.
3. After practicing for 12 years, cadres at various levels have accumulated much experience of promoting economic development and reform based on practical experience. This provides the necessary conditions in terms of cadres for deepening the reform.
4. The masses have really benefitted from past reform and the people in the whole country have great enthusiasm for further changing the country's economic situation through reform to improve their standard of living; they actively support reform.
5. After pursuing rectification and improvement for more than two years, we have overcome the over-heated economy and excess economic expansion; at present, total supply tends to balance with total demand and the economy is stable. This provides the deepening of reform with a relatively good environment.

Therefore, we firmly believe that under the correct leadership of the CPC and the Chinese Government, and through hard effort in the next 10 years, by the end of this century, a new socialist economic system with Chinese characteristics will surely take shape in the country.

### **Economic Prospects for 1990's**

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[Article by Ji Chongwei (1323 1504 1218): "Prospects for China's Economic Growth in 1990's"]

#### **[Text] I. A 10-Year Program Which Closely Integrates Reform and Opening Up With Development**

The last decade of this century is an extremely crucial period in the historical process of China's building of socialist modernization. On the domestic front, through reform and opening up in the 1980's we opened up new prospects and scored tremendous world-renowned achievements in the building of socialist modernization. At the same time, we also experienced grave political trials. Undoubtedly, during the process of economic and social development, there still exist many contradictions and problems; and even under an overall situation of stability and unity, the whole country is still faced with some unstable factors. Internationally, during a time when sudden changes have taken place in the world political situation with more acute economic competitions, we are still able to create an external environment favorable to China's building of modernization in the coming decade. It has a direct bearing on the consolidation and development of China's socialism, as well as on the future and the fate of the Chinese nation, whether or not we can consolidate and develop in the 1990's the achievements already scored in 1980's and further step up economic rejuvenation and social progress. The direction and prospects of China's economic development during the 1990's are issues that concern the people of the whole country, and even of the whole world. It was against such a historical background that China's 10-Year Program and the Eighth Five-Year Plan for National Economic and Social Development was formulated, which points out China's future direction, struggle goals, guiding principles, major tasks, and important indexes. It serves as a general blueprint and action outline for the people of all nationalities of our country in their efforts to attain the second strategic goal of the building of modernization.

It was through fully developing a democratic style, as well as going through repeated discussions from top- to grass-roots levels, amendments, and supplements that this program was finally established. Therefore, it can be said to be a crystallization of the wisdom of the whole party and the people. The program has the following special features, which are different from those in China's previous long-term plans:

1. The program outline has embodied the objective demands in various basic aspects of China's economic and social development. It not only aims at bringing about a growth in the total supply and demand of the economy, but also pays more attention to the enhancement of economic quality and efficiency. It attaches importance not only to economic construction, but also to economic restructuring and opening up; and it gives

consideration not only to economic development (the building of material civilization), but also to a comprehensive progress of the whole society (the building of socialist spiritual civilization will be enhanced to new heights, and the socialist democracy and legal system further perfected). This is a program that regards reform and opening up as an impetus to a comprehensive development of the national economy.

2. The program outline works out a basic guiding principle, namely, the five unswervingly's: Unswervingly take the road of building socialism with the Chinese characteristics; unswervingly expedite and turn reform and opening up into a strong impetus to China's economic and social development; unswervingly maintain a sustained, stable, and well-coordinated development of the national economy, and regard at all times the enhancement of economic efficiency as the center of all economic work; unswervingly uphold the principle of independence, self-reliance, hard struggle, and building up the country through thrift and hard work, while integrating the use of overseas funds, technology, and intelligence with the development of China's economy and the enhancement of self-reliant capacity; and unswervingly carry out the principle of placing equal stress on the building of material and spiritual civilizations so as to constantly enhance the ideological and moral quality as well as the scientific and cultural quality of the whole nation.

3. In line with the call to gradually modernize the national economy, and with the changes in the consumption structure of residents, the program makes vigorous efforts to readjust the industrial structure, with the stress being placed on strengthening agriculture, basic industries and facilities, and on the reorganization, transformation, and enhancement of processing industries. The development of the electronics industry should be put in a prominent position, and efforts should be taken to turn the industry into a leading one in bringing about modernization of the national economy. It is also necessary to promote the housing industry and tertiary industries, and step up the rationalization and modernization of the industrial structure.

4. The program outline combines the long-range perspective of the 10-year program with the interim arrangement of a five-year plan. The 10-Year Program emphatically formulates the major goals, basic tasks, and important principles and policies of the national economy and social development. Only a few major indexes are put forward in the program. Being more concrete with more indexes, the Eighth Five-Year Plan places the stress on the direction, tasks, and policies of national economic and social development, as well as the overall arrangement of reform and opening up. More detailed and concrete arrangements will be worked out in annual budgets. During the implementation of the Eighth Five-Year Plan, efforts are also required, in light of practical situations, to make necessary readjustment and enrichment of indexes presently formulated. This flexible method of working out plans suits the economic



operation mechanism, which integrates the planned economy with market regulation, and has changed the old practice of inflexibly stipulating concrete indexes of mandatory plans.

## II. The Development Goal and Prospects of the Coming Decade

It is known to all that with the efforts made during the past 10 years, China has attained the first step of its three-step strategic goal in realizing socialist modernization. In the coming decade, China will strive to attain the second step of its concrete strategic goal of the building of socialist modernization. That is, on the basis of vigorously enhancing economic efficiency and optimizing the economic structure, efforts should be made to enable the GNP to be computed at fixed price; to redouble the GNP of 1980 by the end of this century, at an average annual growth rate of 6 percent; and to enable the total agricultural and industrial output values to rise at annual growth rates of 3.5 and 6 percent respectively. Strides should also be taken to give our people, who have had enough food and clothing, a fairly comfortable life; provide them with more means of livelihood; enable the consumption structure to become more rational; bring about evident improvement to their living conditions; further enrich their cultural life; continue to enhance their health levels; and constantly improve social service facilities. It is also necessary to develop educational undertakings; promote scientific and technological progress; improve economic management; and readjust the economic structure and step up the construction of key projects so as to lay a material and technological foundation for China to maintain a sustained economic and social development in the early 21st century.

On the basis of the attainment of the aforementioned goals, by the year 2000, the following major changes will have taken place in many aspects of China's national economic and social development:

The economic strength of the whole country will be markedly strengthened; China's world ranking for its GNP will be enhanced. (Some foreign strategic experts have estimated that by the year 2000, the comprehensive economic strength of China will leap to the fifth place in the world.) The output of major industrial and agricultural products will increase by a large margin; the industrial structure improve remarkably; the category of production will become more complete; the structure of regional economy will tend to be more rational; and scientific, technological, and management standards will be enhanced to a fairly great extent. The major technologies of certain industries and trades will reach or approach relatively advanced world levels, while significant breakthroughs will be made in the fields of high and new technologies, which will give shape to a number of industries using such high and new technologies. The scientific and cultural quality, and the ideological and moral quality of the entire nation will be evidently enhanced; the modernization building of national defense will reach a new level; and a phased change from

enough food and clothing to a fairly comfortable life will take place in the people's livelihood. The health level, nourishment, average life-span, and literacy rate of the people will reach or surpass the standards of countries with a moderate income. In addition, a new socialist economic system will be initially set up, the socialist system further perfected, and society will enjoy a stable public order and healthy common practices. In a word, China's political, economic, and social fields will undergo a comprehensive development and progress. By the beginning of the 21st Century, China will enter a new development phase, namely, the third step of its strategic goal, during which China's per capita GNP will generally reach the standards of moderately advanced countries, and the socialist modernization will basically come true.

## III. The Possibility and Guarantee for the Realization of the Program

Hong Kong and Macao compatriots may ask: It is true that the 10-Year Program has sound goals and good prospects. Can it, however, possibly come true? And are there any guarantees for its realization?

In my personal opinion, though without raising high requirements for quantity and speed, the program has put forward considerable high requirements for quality, structure, quality, and efficiency. It is possible for these requirements to finally come true through arduous efforts. China now possesses the following conditions which can serve as guarantees for the realization of the program:

1. Stability in the political field. Practice in China and various countries in the world proves that to ensure a growth in the economy, it is of primary importance to have a stable and unified political situation. The collective leadership of the party Central Committee with Comrade Jiang Zemin as its core has already fulfilled the take-over task without a hitch. The whole party is now rallying around and in keeping with the party Central Committee ideologically and in action. All nationalities are closely united and getting along on friendly terms. Since it defeated the provocations of the splittists, the Tibetan Autonomous Region has enjoyed a more stable and flourishing situation with each passing day. The series of principles and policies worked out by the party, which center on economic construction in accordance with the four cardinal principles and the basic line of reform and opening up, have proved totally correct and popular among the people by practice over the past 10 years. These principles and policies can maintain long-term continuity and stability, and will by no means be shaken or changed by future personnel changes or other factors.

2. Stability in the economic field. A basic guiding principle running through the 10-Year Program is to maintain a sustained, stable, and well-coordinated development of the national economy. This is a profound summarization of both positive and negative historical experience and lessons China has gained over the past 40

years. In the future, we should not only overcome the defect of overanxiety for results in our guiding ideology; but also rationally arrange the economic growth rate and strive to maintain a basic balance between total social demand and supply. It is necessary, through strengthening macroeconomic regulation, to put the financial deficits under control, prevent inflation, and bring about a basic balance between finance, credit, foreign exchange, and materials. At the same time, we should also adjust the economic structure and step up the rationalization of the industrial structure, product mix, and the organizational structure of enterprises. It is also necessary to correctly handle the relations between coastal and inland areas, and between economically advanced as well as less advanced areas; and bring about a rational division of labor and well-coordinated development in regional economies. All these are basic guarantees for a sustained, stable, and well-coordinated development of the national economy.

3. Vigorous efforts should be made to enhance economic quality and efficiency. Poor economic efficiency and the problem of high input but low output are deep-level reasons for China's major economic fluctuations in the past, and for its failure to maintain a sustained and stable economic growth. Poor economic efficiency is also closely related to the inferior overall quality of the economy. Therefore, only by making vigorous efforts to enhance the overall quality of the national economy and economic efficiency can we attain a real speed with potential forces for future development, and constantly enhance the modernization standard of the national economy. Therefore, the 10-Year Program calls for efforts to regard the enhancement of economic efficiency as the center of all economic work, and enhance the overall quality of the national economy to new heights. In order to shift people's major attention from speed to the enhancement of economic quality and efficiency, the 10-Year Program has arranged a relatively low growth rate. In addition, it is necessary to: 1) expedite the technological transformation of the national economy and strive to enhance the modernization standards of existing techniques and equipment of all enterprises; 2) strengthen and improve the management system; that is, while devoting efforts to enhance the policy decision-making and organizational management levels of the macroeconomy, it is also necessary to reform and intensify the operational management of enterprises; and 3) place scientific and technological development and the development of educational undertaking on an important strategic position, so as to enable the economic growth to really rely on scientific and technological progress and the enhancement of human quality.

4. The 10-Year Program and the Eighth Five-Year Plan mainly depend on the enhancement of economic efficiency and tapping the potential of existing enterprises to attain a high-speed development and put an end to the old practice of mainly relying on high input and an expansion of investment in basic construction. The Eighth Five-Year Plan stipulates that the fixed assets

investment of the entire society will stand at 2.6 trillion yuan, with an average annual growth rate of only 5.7 percent. Investment made by units owned by the whole people will reach 1.73 trillion yuan, with an average annual growth rate of 5.5 percent. Of this, the annual growth rates of investment in basic construction and technological transformation will reach only 2.1 and 9.8 percent respectively. Take the case of the iron and steel industry. Although it does not arrange the establishment of new major iron and steel plants, the Eighth Five-Year Plan calls for efforts, through expanding and carrying out technical transformation in existing iron and steel plants, to strengthen the building of coal mines and production capacities of supplementary materials. It also calls for attaining such goals as increasing the output of scarce items, enhancing technological standards, and reducing the consumption of energy and raw and semi-finished materials. In short, we will accomplish the goal of basing our plans on the intensive form of enlarged reproduction. By so doing, we will be able to prevent ourselves from becoming unduly dependent on huge investment, which might not be fulfilled due to shortage of funds.

5. Continued efforts should be taken to deepen economic structural reform. Both the effective settlement of various contradictions existing in present economic life and the fundamental attainment of a stable development of the national economy depend on the constant deepening of economic structural reform, gradual rationalization of economic relations, and on the establishment of a rational economic structure and operational mechanism. It is stipulated in the 10-Year Program that the basic direction of the deepening of economic restructuring, in line with the requirements in the development of socialist planned commodity economy, is to set up an economic operation integrating planned economy with market regulation, which can give play not only to the superiority of the planned economy, but also to the positive role of market regulation. In the future, we will unswervingly act in accordance with this basic principle; devote great efforts to exploration; be bold in making new breakthroughs; and do a good job of reforms in such fields as enterprise, planning, investment, circulation, price, finance, taxation, foreign trade, labor wage, residential housing, medical and social guarantees, and the economic regulatory system. All these reforms should be stepped up in a comprehensive way while full consideration must be given to the endurance capacity of the state, enterprises, and residents, to avoid producing excessively wide repercussions in society. In summing up the experience China has gained in the practice of reform over the past 10 years and more, we believe that this is a positive and steady practice, which will undoubtedly bring about a sustained and stable development of social productive forces and, at the same time, contribute to the stability and progress of our society.

6. Opening up to the outside world should be further expanded. Practice over the past 12 years has proved that the implementation of opening up, and constant

promotion of foreign trade as well as economic and technological exchange and cooperation, give a strong impetus to China in its efforts to strengthen its self-reliant capacity and bring about a sustained and stable development to the building of socialist modernization. Self-reliance and opening up to the outside world are mutually complementary rather than contradictory. The 10-Year Program regards the acceleration of opening up as an important principle, and calls for efforts to promote various work to new heights, including work in foreign trade and the introduction of foreign investment, technology, and intelligence. It calls for work to improve the investment environment on a constant basis, do a really good job in running foreign-invested enterprises, help them enhance economic efficiency, and integrate the introduction of foreign investment with the hastening of technological transformation in existing enterprises. The 10-Year Program, through various forms, calls for work to attract and guide foreign businessmen to make investment in China's basic industries, which are in need of immediate development.

It is necessary to continue to give play to the roles of special economic zones, coastal open cities, and open areas in opening up; to develop an external-oriented economy; and to quicken the pace of rationalization and modernization of the industrial structure. Relations between coastal and inland areas should be correctly handled and coordinated, so as to bring into better play the important role of coastal areas in introducing investment from abroad and establishing lateral ties at home, and in promoting two-way exchanges with inland areas. At the same time, we should also be ready to select a number of inland border cities and areas as open windows to the outside world, in order to promote the foreign trade and economic and technological exchanges of such areas.

Hong Kong and Macao will return to the motherland during the 1990's. Under the guidance of the principle of "one country, two systems" and the Hong Kong and Macao Basic Laws, we will strengthen exchanges, cooperation, and mutually complementary relations between inland areas and Hong Kong and Macao, and strive to maintain the stability, prosperity, and steady transition of Hong Kong and Macao. In addition, in accordance with the principles of "peaceful reunification and one country, two systems," we will make vigorous efforts to promote economic and cultural exchanges between the sides of the Taiwan Strait and push forward the magnificent cause of the peaceful reunification of the motherland.

The international environment in the 1990's will be favorable to China's construction in peacetime. The Chinese Government will unswervingly proceed from the fundamental interests of the people of China and the whole world. It will devote major efforts to creating an international peaceful environment favorable to China's modernization cause. It will develop friendly and cooperative relations with various countries, especially countries in the Asian-Pacific Rim; and set up a new

international political and economic order. All these are international conditions which guarantee the realization of China's 10-Year Program and the Eighth Five-Year Plan.

Because China possesses the aforementioned objective conditions, I deeply believe that although we will encounter various difficulties and problems on the road ahead in the 1990's, we are sure to succeed in accomplishing the Eighth Five-Year Plan and the 10-Year Program, attain the second strategic goal of China's modernization, and stride into the 21st century with higher resolve.

#### IV. The Current Economic Situation

During the first four months of this year, China's national economy continued to develop favorably, and a number of major indexes reached or approached the levels of the same period during normal years. From January to April, the total industrial output value and the total volume of retail sales rose by 13.2 and 13.9 percent respectively over the same period last year. Since this year, market sales have gradually taken a turn for the better. During the first four months, the situation of negative growth in the same period of the previous two consecutive years was reversed; while the actual growth rate already approached the level in the same period in 1987 and 1988, after allowing for price rises. Market prices were basically stable, and the upward readjustment on grain and oil prices by the state did not produce much fluctuation in the negotiating prices of the grain market. Foreign trade has maintained an upward trend; the total import and export volume reached \$10.49 billion in April, up 15.1 percent over the same period last year, of which exports amounted to \$5.28 billion while imports to \$5.21 billion, up by 10 and 20.9 percent respectively. This has shown clearly that the retrenchment period in China's imports during the previous two years has ended and a balance between import and export volumes has gradually been attained. The situation of international payment and foreign exchange reserves has also been further improved. The amount of investment and the number of new projects are on the rise. During the first four months of this year, investment of state-owned units in fixed assets increased by 13.8 percent over the same period last year, of which investment in basic construction rose by 13.4 percent while that in technological renewal and transformation rose by 14.9 percent. This conforms to the principle in the Program which calls for efforts to place the emphasis on technological transformation. Financial revenue and expenditure, as well as such fields as monetary markets, credit loans, and currency issuance are all relatively normal.

All these have shown that as a result of last year's macroeconomic regulation and a prudent fine-tuning carried out in the first four months this year, China's economy has extricated itself from a difficult phase in the whole readjustment period, and entered a phase of normal operation and stable growth. With a favorable

turn in economic operation, the economic efficiency of enterprises and the macroeconomic situation are also beginning to take a turn for the better. The economic improvement and rectification of China's economy has entered its later stage.

Relevant departments and academic institutions have recently made analyses and predictions on China's economic situation, indicating that the economy has maintained a good momentum of recovery and the production growth rate will exceed targets in the annual budget by a fairly large margin. They predict the growth rates of the GNP and the national income at 8 and 7.8 percent respectively. The average annual growth rate of agricultural production is expected to increase by 3.7 percent; light and heavy industries, by 12 and 11.4 percent respectively; residents' consumption, by 10.1 percent, and the total volume of retail sales, by 12 percent. Society-wide investment in fixed assets will rise by 15.7 percent. It is predicted that the economic efficiency of enterprises this year can be gradually enhanced, and financial revenue will slightly exceed the planned figure. However, expenditure will also go beyond the budget, and the task to reduce financial deficits still remains extremely arduous. Both the savings deposits of urban and rural residents and the scale of loans will grow, yet at a slower pace than last year. With the implementation of measures on grain and oil price reform, the annual retail price index of commodities and the cost of living index of workers and staff are expected to exceed 7 percent, though they are unlikely to surpass 10 percent.

Reform in the foreign trade system has been further carried out this year. The state has ceased to grant subsidies on loss-incurring imported and exported commodities, and called on enterprises engaged in foreign trade to assume sole responsibility for their own profits and losses. Fairly great difficulties were originally predicted in the sale of major loss-incurring commodities. However, with the efforts of both production and foreign trade enterprises, the export volume in the first four months maintained a good growth momentum and a favorable trade balance, and foreign exchange earnings from nontrade items such as tourism registered a growth. In view of this, we have decided to appropriately expand the import scale, which will be conducive to strengthening the potential forces of the national economy and alleviating frictions in foreign trade. A balance, or a slightly favorable one, is expected in this year's import and export trade.

The situation of introducing foreign trade was also good in the first four months of this year. Many new agreements on investment projects were signed, involving a total investment amount of \$3.3 billion, which was higher than the same period last year. With agreements on a number of major projects, this year's introduction of foreign investment will be carried out on a bigger scale than last year.

The comprehensive and stable growth attained in this year's national economy is mainly attributable to measures of economic improvement and rectification and the resolute implementation of reform and opening up policies. It goes without saying, however, that problems also exist at the same time: State-owned large and medium enterprises have not been invigorated, nor has evident improvement been seen in the situation of poor economic efficiency and heavy losses. The economic structure, especially the industrial structure, is still irrational, and great difficulties have been seen in the readjustment of product mix. Many old enterprises plagued by outdated equipment and poor economic efficiency are badly in need of technological transformation, and a large number of enterprises, which should have been closed down, annexed, or transformed, are still fighting a war of attrition. The problem of triangle debts among enterprises, which are in arrears with payments to each other, has not yet been completely resolved. In addition, the current foundation for an economic upturn is not solid enough. All these deep-level contradictions remain to be gradually eliminated in the process of deepening reform and opening up.

On the other hand, during the period in which the economic operation is taking an upturn after extricating itself from a stagnant state, there still exists the possibility of another economic overheating. This is because financial deficits have always remained high, and investment has been on the rise for two consecutive years. In addition, the large quantities of loans increased in 1990 are still in a state of precipitation, and the adoption of various price reform measures as well as an expanded demand will likely serve as a stimulus to price rises. Such being the case, it is imperative to prevent the resurgence of an economic overheating in the field of macroeconomic regulation. In the credit field, it is necessary to exercise a tight control over the general scale of loans and place the emphasis on bringing back to life those already-invested funds. Efforts should be taken to strictly control financial expenditure so as to cut down deficits. It is necessary to increase the contents of reform and step up the readjustment of industrial structure and product mix. Attention should be paid to checking the number of new projects, the blind expansion of investment, and the resurgence of the trend of seeking production speed. It is also necessary to vigorously set up a social guarantee system so that enterprises are able to "choose the superior and eliminate the inferior" and do a good job in readjusting their organizational structure. Laws and regulations should be established and management should be intensified to restrict enterprises' behavior of getting into debt, in order to reduce the pressure they have exerted on monetary and financial departments.

During my recent fact-finding trip to Jiangsu and Guangdong, I had the feeling that the economies there, especially township and town enterprises as well as foreign-invested ones, were full of vigor and were all experiencing a good growth momentum. At present, relatively greater difficulties lie with state-owned enterprises in some inland areas, such as the northeastern and

northern parts of China. However, even if in state-owned enterprises, if they succeed in bringing about a quick transformation in their management system, the situation will take a rapid turn for the better. This shows that the only way out is to expedite the deepening of reform. In my opinion, so long as resolute efforts are taken to implement various principles and policies formulated in the "Outline," China's economic development will gradually follow a steady course upwards, and there will be bright prospects for the attainment of magnificent goals put forward in the Eighth Five-Year Plan and the 10-Year Program.

#### **V. Hong Kong's Position and Role in China's Economic Development During the 1990's**

Hong Kong will return to the motherland and become a special administrative region of the PRC in 1997. Being a part of the Chinese territory, Hong Kong will nevertheless maintain its capitalist system, as well as its position as an international financial center and a free port. During the 1980's when China began carrying out reform and opening up, Hong Kong played an outstanding role as a bridge, link, and window; and it also made tremendous contributions to and gave play to its role as a unique pioneer in and medium for China's foreign trade expansion, as well as in its introduction and utilization of foreign technologies and funds. In recent years, closer economic ties and cooperation have been established between Hong Kong and mainland China; particularly, areas like the Zhujiang Delta, Guangdong, which are engaged in the processing of supplied materials, have become inseparable from Hong Kong, both being closely related, mutually dependent, and in complete harmony. Hong Kong has also played a significant part in linking up economic, trade, and cultural ties between the mainland and Taiwan. I believe that these roles will not be weakened in the 1990's. On the contrary, they will be strengthened with each passing day. As far as the mainland is concerned, in its future efforts to expand opening up, many large enterprises will adopt an internationalized management system and take a more active part in the international division of labor. In this aspect, industrialists and entrepreneurs in Hong Kong in the financial industry and such fields as information and consultation can act as partners in cooperation. The mainland has scored many scientific and technological achievements, and needs to turn them into commodities. Hong Kong's capital, information, and sales channels can help the mainland to internationalize and turn such achievements into commodities. Hong Kong and the mainland can also make concerted efforts in the international activity of opposing trade protectionism and establishing a new international economic order, just as CPC General Secretary Jiang Zemin pointed out in an interview with reporters of *BAUHINGIA* magazine: "1. Following the return of Hong Kong, China will, on the basis of 'one country, two systems,' find a new pattern of opening up which suits new historical conditions; and 2. In this new pattern, Hong Kong will not lose its present superiority in the international economic activities in

terms of market, talents, and management system. On the contrary, it will continue to give play to its irreplaceable roles." General Secretary Jiang placed particular importance to tenants in Hong Kong, saying: "Hong Kong's various circles, including the industrial and commercial, financial, judicial, educational, and cultural circles, have a large number of outstanding talents, among whom some well-known figures even enjoy an international reputation. There is ample scope for their wisdom and abilities in the new great cause of rejuvenating the Chinese nation."

In a word, Hong Kong will continue to give play to its unique role in China's opening up and economic development after 1997. In order to attain this goal, it is of the greatest importance to maintain a long-term stability in both the mainland and Hong Kong, so as to enable them to supplement each other and bring about common prosperity to both. With the establishment of a 10-Year Program and the Eighth Five-Year Plan for the national economic, the overall situation is developing favorably. The National People's Congress delegates and the Chinese People's Political Consultative Conference members from Hong Kong and Macao attended the discussion of this program, which was adopted unanimously. I hope Hong Kong compatriots will strengthen their confidence and make concerted efforts to maintain stability, prosperity, and bright prospects to both the mainland and Hong Kong.

#### **Local Enterprise Groups Create Negative Impact**

91P30157A Beijing JINGJI CANKAO BAO in Chinese  
27 May 91 p 4

[Summary] Currently, forming local enterprise groups has gained increasing popularity. Local governments are making great efforts to persuade efficient enterprises to lead a group and coordinate unified production, supply, and sales among members. This is a rapidly growing trend. Within a very brief period, over 2,000 such groups have been formed throughout the country, and it seems that most local enterprises are heading in this direction.

Although there are positive aspects to this type of operation, such as eliminating internal trade barriers, enhancing competition, and facilitating rational allocation of resources, capital, and labor, the main reason local governments favor these enterprise groups is that, under the existing finance contract system, localities can increase their own revenue as most profits and taxes are retained locally. In addition, because enterprises are the pillars of the local economy, their performance is one criterion used to evaluate the local administration. Furthermore, certain local administrative units, for fear of being closed down or merged under the rectification campaign, beg the local governments or use their own power to organize such groups without reasonable cause. These enterprise groups do not meet proper requirements and will not achieve the desirable results noted above.

Whether they like it or not, enterprises under local jurisdiction are being forced to join such groups, and coercion has been used as a basic principle by the local governments. As a result, various barriers have been set up one after another, and the negative impacts of these enterprise groups have thus appeared.

To a certain extent, banding enterprises together in this way has the effect of protecting the backward units and taking benefits away from the more efficient ones. It also hinders fair competition and a rational division of labor.

Local enterprise groups also tend to fragment domestic markets by restricting sales to only local products and squeezing out non-local products. The excessive emphasis on using and selling products within the group, producing for the group's own needs, and confining production facilities to local area also tends to steer enterprise groups toward the narrow path of self-sufficiency. The practice of only allowing money to flow in and not out also produces new debt chains.

In view of these negative effects, the most important thing for the central government to do is to formulate proper policies and guide the local economies toward high efficiency and low energy consumption. Enterprises should divide assets into shares, unify research and development, maintain an outward outlook, and straighten out management. It is necessary to guard against the trend for all localities to indiscriminately organize enterprise groups in order to insure their healthier development, and rather to be guided more by economic factors and less by administrative factors.

### Retail Market Continues To Thrive

OW1406131991 Beijing XINHUA in English  
0530 GMT 14 Jun 91

[Text] Beijing, June 14 (XINHUA)—China's domestic market will grow at a normal rate in the latter half of this year as market prices remain basically stable for the entire year, according to a market forecast by the Ministry of Commerce.

Statistics from the ministry show that the retail sales volume from January to April increased by 13.9 percent compared with the same period of 1990. The increase rate remained at a two-digit level even after deducting the portion brought about by the rise in the prices of grain and edible oil in April.

The ministry predicted that during the latter half of this year, the sales volume growth will continue at a two-digit level and remain about 15 percent higher than the same months last year.

The forecast says that quick turn-about of the domestic market may be attributed to the following factors:

- the government raising the prices of grain and edible oil prompted a 2.5 percent increase of the total retail sales;

- the increase in planned total investment in fixed assets will spur market demand by 12 percent;

- institutional spending will increase by 10 billion yuan in 1991; and

- many varieties of quality products have entered the market, which has stimulated the purchasing appetite of consumers.

In addition, many consumers believed that the prices were already at the lowest during the first half of the year, leading them to launch a new purchasing spree. This was best reflected by the brisk sale of color television sets.

Moreover, lowering of bank interest rates during the first half of this year have also had an effect on the market, the paper said.

## PROVINCIAL

### 1990 Henan Economic Statistical Communique

HK0507113791 Zhengzhou HENAN RIBAO in Chinese  
9 Apr 91 p 2

[Henan Provincial Statistics Bureau report: "Henan Province Communique on 1990 Economic, Social Development Statistics"]

[Text] In 1990, Henan Province took a further step in implementing the principles of economic improvement and rectification and the deepening of reform, and obtained obvious results in vigorously and conscientiously implementing the series of State Council measures for controlling total supply and demand and readjusting the extent of fund retrenchment. There was a large harvest and industrial production rose monthly. Market operations were stable. The contradictions that once seriously restricted the several links, such as production, construction, circulation, and consumption, were alleviated. The overall national economy developed healthily. There were new results in all undertakings, such as science, technology, education, culture, public health, and sports. Preliminary statistics showed that the province's GNP for 1990 totaled 88.4 billion yuan, an increase of 4.6 percent over the previous year; and the national income totaled 73.6 billion yuan, an increase of 3.8 percent over the previous year. However, some problems were rather outstanding in the development of the national economy, such as product overstocking, decreasing returns, financial difficulties, and the slow-recovering rural markets. Some underlying problems have not been resolved completely, and the task of economic improvement and the deepening of reform is still heavy.

### I. Agriculture

In 1990, all places in the province further strengthened leadership for agricultural development, increased investment in agriculture, vigorously implemented a series of policies and measures by which "science and technology boosted agriculture," and energetically carried out the overall strategy of agricultural development.

Moreover, thanks to good climatic conditions, agricultural production was continually developing in full swing. The province's total agricultural output was 50.201 billion yuan, an increase of 7.8 percent over the previous year, of which crop farming accounted for 33.370 billion yuan, a 7.7 percent increase over the previous year. Forestry, animal husbandry, sideline industries, and fishery increased 5 percent, 11.9 percent, 3.5 percent, and 19.8 percent respectively.

Of the output of all agricultural products, that of grain set a historical record. Cotton and oil-bearing crops, with a decrease in cultivated areas, still made good harvests and their total output increased by a comparatively large margin. The output of hemp, jute, and the like continued to increase, and that of tobacco decreased as a result of a decrease in cultivated areas, but their per-mu yield increased and their quality improved. The output of major farm products was as follows:

	1990	Increase Over 1989 Percent
Grain	33,036,600 tons	4.9
Summer Grain	16,664,600 tons	-3.4
Autumn Grain	16,372,000 tons	14.9
Cotton	676,100 tons	28.2
Oil-bearing crops	1,522,900 tons	28.5
Rapeseed	318,700 tons	40.9
Tobacco	408,600 tons	-9.9
Jute, hemp, etc.	176,600 tons	10.1
Vegetables (including gourds, melons, etc.)	9,132,100 tons	2.2
Fruits	639,200 tons	-16.7

The production scale of forestry further increased. In 1990, the province had a total afforested area of 2.45 million mu. By the end of 1990, the plains of 83 counties reached afforestation standards. The quality of afforested trees improved, forest resources management was strengthened, and indiscriminate logging was kept down.

There was a steady growth in animal husbandry. Large animals in sheds were on the increase and their numbers ranked first throughout the country for three consecutive years. Pigs in stock continued to increase.

The output of major cattle products, such as pork, beef, and mutton, also increased.

The output of major cattle products and number of heads were as follows:

	1990	Increase Over 1989 percent
Total meat output	1,349,000 tons	11.1
Pork	974,500 tons	10.6
Milk	74,100 tons	6.3
Sheep wool	6,745 tons	-2.9

	1990	Increase Over 1989 percent
Hogs slaughtered	11,824,400 head	11.4
Large animals at year end	11,163,300 head	0.4
Pigs at year end	17,503,200 head	4.2
Sheep and goats at year end	12,795,100 head	-6.7

Fish production was developing well. In 1990, the output of aquatic products totaled 105,000 tons, up 6,700 tons from the previous year.

Conditions for agricultural production were continually improving. At the end of 1990, the aggregate power of farm machines throughout the province reached 22.64 billion watts, a 5.1 percent increase over the previous year end. The number of walking and small tractors totaled 822,000, a 16.5 percent increase. The number of agricultural trucks was 44,600, basically the same as the previous year. Drainage and irrigation machinery reached 6.096 billion watts, a 0.7 percent increase. The total 1990 machine-tilled area was 66.143,7 million mu, a 7.3 percent increase. The (net) volume of chemical fertilizers used was 2.132 million tons, a 15.7 percent increase. The volume of electricity used in rural areas totaled 4.693 billion kilowatt-hours, a 3.8 percent increase. The effectively irrigated area was 53.25 million mu. The mechanism that encourages investment in agriculture has not improved yet. The capability to provide socialized services in rural areas was relatively low, the resistance of agricultural production to natural disasters was still low, and the problem of the unsmooth circulation of agricultural and sideline products was outstanding.

In 1990, there were new developments in the province's rural economy. The total output value of rural societies was 102.847 billion yuan, a breakthrough of 100 billion yuan, or a 10 percent increase over the previous year. Of this, nonagricultural industries, such as rural industries, the construction industry, the transportation industry, and commerce, accounted for 52.63 billion yuan, a 12.1 percent increase or a proportion of 51.2 percent in the total output value of rural societies.

## II. Industry

Industrial production developed in a sustained manner despite difficulties. In 1990, the province's total industrial output value was 103.673 billion yuan, a 6.9 percent increase over the previous year, of which the output by industries at and above township level accounted for 76.46 billion yuan, a 5.5 percent increase; and that by industries at and below the village level was 26.432 billion yuan, a 10.6 percent increase. Of the output value of industries at and above township level, state-owned industries accounted for 57.203 billion yuan, a 3.2 percent increase; collectively owned industries



accounted for 18.836 billion yuan, a 10.3 percent increase; and industries of other forms of ownership increased 92.9 percent.

Readjustment of the product mix began. In 1990, the output value of light industries totaled 47.313 billion yuan and that of heavy industries 56.36 billion yuan. Light and heavy industries appeared to be developing at a synchronized rate. The increase and decrease in the output of major products reflected the changes of supply and demand on the market and the function of the state's macroeconomic regulatory policy. Production of people's basic necessities steadily grew, while that of quality and durable consumer goods and some machines and electrical products decreased. Production of raw materials, energy, and products assisting agricultural development grew continually. However, structural contradictions in the entire industrial production were comparatively outstanding.

The output of major industrial products was as follows:

	1990	Increase Over 1989 Percent
Bicycles	757,200	-38.2
TV Sets	354,900	5.1
Color Sets	45,800	-16.7
Tape recorders	83,600	-59.9
Household refrigerators	123,100	-0.5
Chemical fibers	63,663 tons	6.2
Cotton yarn	314,300 tons	-3.5
Cloth	1.118 billion meters	-5.4
Woolen goods	10.4634 million meters	4.0
Cigarettes	2.9149 million cartons	2.1
Alcoholic Drinks	634,100 tons	9.5
Machine-made paper and paper boards	1.4841 million tons	2.7
Synthetic detergents	92,275 tons	0.9
Matches	1.9703 million pieces	4.1
Soap	39,287 tons	-1.7
Raw coal	90.8044 million tons	2.5
Crude oil	8.8206 million tons	-7.5
Electricity	31.914 billion kilowatt-hours	5.4
Pig iron	1.7133 million tons	6.1
Steel	1.6898 million tons	6.3
Rolled steel	1.3401 million tons	7.3
Sulphuric acid	363,800 tons	-1.2
Caustic soda	122,100 tons	3.9
Soda ash	163,300 tons	15.3
Synthetic ammonia	1.6816 million tons	3.9

	1990	Increase Over 1989 Percent
Chemical fertilizers (net)	1.4058 million tons	6.6
Cement	11.7891 million tons	2.2
Plate glass	9.048 million cartons	-7.8
Machine tools	1,214 pieces	-50.0
Large and medium tractors	10,348 pieces	87.3
Small tractors	165,800 pieces	31.9

By the end of 1990, 1,651 budgetary state industrial enterprises had signed the new round of responsibility contracts, representing 90 percent of the total number of enterprises whose contracts at the first round had expired. The contracted responsibility system was further improved.

Due to the influence of various factors, such as the unsmooth circulation of commodities, product overstocking, and rising costs, enterprises' economic returns were still unsatisfactory. In 1990, income from the sale of products obtained by enterprises with independent accounts totaled 64.021 billion yuan, a 3.4 percent increase over the previous year. Profits and taxes turned over to the state amounted to 7.757 billion yuan, a 17.7 percent decrease from the previous year. The percentage of sales profits and taxes was 12.1 percent, a 3.1 percent decrease from the previous year. Capital profits and taxes was 11.2 percent, a 4.5 percent decrease from the previous year. The time for the turnover of fixed-quota circulating funds was extended from 111 days in the previous year to 133 days. There was an increase in the number of losing enterprises, and the volume of losses was continually growing.

### III. Investment in Fixed Assets and the Construction Industry

To meet the needs of motivating the market and promoting production growth, investment in fixed assets rose. In 1990, the total investment in fixed assets came to 20.613 billion yuan, a 9.8 percent increase over the previous year, or basically the same amount as the previous year if the factor of price increases were considered. Of the total amount of fixed assets investment, state-owned units accounted for 10.823 billion yuan, a 8.6 percent increase over the previous year. Of this, capital construction projects accounted for 5.228 billion yuan, a 2.3 percent decrease; renewed and transformed projects accounted for 3.253 billion yuan, a 6.9 percent increase; collectively owned units invested 2.458 billion yuan, a 37.3 percent increase; and individual investment came to 7.332 billion yuan, a 4.5 percent increase. Of the total investment by state-owned units, central projects accounted for 6.49 billion yuan, a 11.8 percent increase over the previous year, and local projects accounted for 4.333 billion yuan, a 4.3 percent increase.

There were new changes in the investment structure. In 1990, of the total investment by state-owned units, productive development projects accounted for 8.843

billion yuan, representing a proportion of 81.7 percent or a decrease of 6.7 percentage points from the previous year. Investment in agricultural and forestry water conservancy was 481 million yuan, representing an increase in the proportion of the total national investment from 3.4 percent in the previous year to 4.4 percent. Investment in transportation, posts, and telecommunications was 795 million yuan, a decrease of the proportion from 7.7 percent in the previous year to 7.3 percent. Investment in education and public health amounted to 330 million yuan, a 12.2 percent increase from the previous year.

In 1990, investment in large and medium infrastructural projects and projects whose investment limits were changed was 3.51 billion yuan, accounting for 94.7 percent of the fiscal plan. Construction of a number of key projects, including the Xinxiang Power Plant, Luoyang Glass Factory, Zhongyuan Chemical Fertilizer Factory, and Anyang Glass Bulb Factory, were completed and put into operation or placed on trial production.

In 1990, the province's state-owned units increased fixed assets totaling 7.861 billion yuan. The major additional productive capacity and returns were as follows: Coal exploited totaled 470,000 tonnes, natural gas exploited totaled 917,100 tonnes, generating sets' electricity capacity totaled 357,100 kilowatts, cement totaled 767,000 tons, plate glass totaled 800,000 cartons, new highways totaled 213 kilometers, rebuilt highways totaled 679 kilometers, the number of students at all types of schools totaled 83,800, hospital beds totaled 2,266, and so forth.

Construction enterprises began to increase production. In 1990, the output by the province's state-owned construction enterprises totaled 3.349 billion yuan, a 8.5 percent increase over the previous year. The all-personnel labor productivity totaled 13,449 yuan, a 12.7 percent increase over the previous year. However, construction enterprises did not fully use their capacity because of work shortages. Their economic returns continued to decrease and losses increased.

Geological survey work registered new achievements, and new breakthroughs were made in the prospecting and exploiting of gold mines. Tunneling footage completed in 1990 was 165,600 meters. Thirty-three ore mines were discovered, of which 17 were gold mines. Additional reserves of eight kinds of ores were verified. Verified reserves of coal, bauxite, and other metal and nonmetal minerals increased considerably.

#### IV. Transportation, Posts, and Telecommunications

Since the economic growth rate slowed down, circulation scale narrowed, and the state raised passenger transportation prices which partially restricted passenger flow, transportation shortages were alleviated and transportation order was further improved. In 1990, goods transported throughout the province totaled 381.11 million tons, a 0.4 percent decrease from the previous year. The

passenger transportation volume was 529.21 million persons, a 1.1 percent increase. Incomes from transportation for the province's transportation departments continued to increase, but all modes of transportation were not coordinated enough. The economic returns of state-operated highways, local railways, and water transportation enterprises were still unsatisfactory.

The volume of goods and passengers handled by all means of transportation were as follows:

	1990	Increase over 1989 Percent
Goods handled	116.944 billion ton-km	3.6
State railways	99.716 billion ton-km	3.7
Local railways	463 million ton-km	-15.7
Highways	16.066 billion ton-km	4.3
Waterways	699 million ton-km	-12.0
Passengers handled	42.036 billion person-km	-10.5
State railways	22.878 billion person-km	-14.1
Local railways	112 million person-km	-17.0
Highways	19.000 billion person-km	-5.8
Waterways	46 million person-km	7.0

There is a sustained development in posts and telecommunications. In 1990, the province's posts and telecommunications totaled 279 million yuan, a 22.2 percent increase over the previous year. Speed post, stamp-collecting, and new businesses of postal savings increased 23.8 percent, 14.6 percent, and 62.7 percent respectively. At the end of the year, 175,000 city households had telephones installed, an increase of 35,000 over the previous year. Program-controlled telephones accounted for approximately 17 percent of the total on the market.

#### V. Domestic Trade and Supply and Marketing of Materials

The domestic market gradually came out of sluggishness and commodity sales began to step onto the track of steady growth. The province's total retail sales volume was 39.743 billion yuan, a 1.6 percent increase over the previous year. Of the total retail sales volume, the retail volume of consumer goods accounted for 31.431 billion yuan, a 1.1 percent increase. Of this, the retail volume of consumer goods sold to residents was 28.522 billion, a 0.9 percent increase over the previous year, and that of consumer goods sold to different sections of the population was 2.909 billion yuan, a 3.3 percent increase. Of this, industrial products purchased amounted to 23.918 billion yuan, a 9.5 percent increase; agricultural and

sideline products purchased amounted to 16.548 billion yuan, an 18.6 percent increase. The total volume of commercial commodities kept in warehouses at the end of the year increased 34.7 percent over the previous year.

City markets appeared to be reviving, while rural markets were slow in reviving. The retail volume of consumer goods for cities was 14.085 billion yuan, a 6.5 percent increase over the previous year, and that of consumer goods at and below the county level was 17.346 billion yuan, a 2.9 percent decrease from the previous year. According to economic types, the retail volume of state-owned units increased 2.9 percent over the previous year, that of supply and marketing cooperatives decreased 2.7 percent, that of other economic types increased 3.5 percent, and that of goods sold by peasants to nonpeasants increased 0.6 percent.

Of the total sales volume of major commodities, sale of food commodities was steady. Sale of edible vegetable oils, edible sugars, pork, and aquatic products increased compared to the previous year. Clothing and household appliance commodities, such as color TV sets and electric fans, had larger sales compared to the previous year. Sale of other commodities, such as cotton, chemical fiber cloth, sewing machines, wrist watches, and radio sets, continually decreased. Commercial departments experienced a comparatively large decrease in economic returns.

Purchase and sale of the means of production decreased and were slow in reviving. The province's materials departments made such purchases totalling 7.367 billion yuan, a 4.6 percent decrease from the previous year; and sales totalling 8.1 billion yuan, a 3.1 percent decrease. The increases of the sales volume of major materials were: rolled steel increased 3.1 percent, coal decreased 9.3 percent, cement decreased 2.8 percent, and timber decreased 0.1 percent. The volume stocked in warehouses by the province's materials departments increased 6.3 percent over the previous year, of which the volume of steel stocked increased 28 percent and that of coal increased 29.9 percent.

Commodity prices on the market were stable and lowering. The province's general level of retail prices in 1990 decreased 0.3 percent from the previous year, reversing the continually rising general level of retail prices in recent years. Judging by the situations of rural and urban areas separately, cities and towns decreased 0.2 percent and rural areas decreased 0.3 percent. The major characteristics of the retail prices on the market in 1990 were: The prices of the majority of foodstuffs were stable and tended to be dropping. Prices of agricultural and sideline products traded at fairs decreased. Retail prices of consumer goods under the category of foods and household appliances increased. The general level of the cost of living for staff and workers in cities and towns increased 0.5 percent over the previous year.

The extent of price changes of various commodities and services was as follows:

	1990 Percent of Increase or Decrease Compared to Previous Year	Increase or Decrease in 12 Months Compared to that in 12 Months of Previous Year
Food	-0.9	same
Grain	-7.6	-8.1
Poultry eggs	-4.5	-3.1
Fresh vegetables	-1.7	2.9
Aquatic products	-5.1	-0.5
Clothing	6.5	4.7
Everyday-use articles	1.0	1.6
Medicines and Medical articles	0.4	-2.1
Fuels	7.9	11.0
Agricultural means of production	-1.7	-1.3
Services	7.8	6.3

## VI. Foreign Trade and Tourism

There was some new progress in foreign trade. The province's foreign economic and trade departments' volume of imports and exports reached \$980 million, an 8.7 percent increase over the previous year, of which imports through self operations totaled \$113 million, a 37.6 percent increase; and exports totaled \$867 million, a 5.9 percent increase. Of the total exports, agricultural and sideline products accounted for 39.6 percent and industrial and mineral products accounted for 60.6 percent. There were 18 major exports whose export volume were over \$10 million each.

In 1990, the province utilized a total of \$11.36 million of foreign capital, of which \$10.49 million were investments directly absorbed from foreign businesses, 92.3 percent of the total foreign capital actually utilized. During the whole year, the province signed 50 agreements on direct investments by businessmen amounting to \$21.07 million of foreign funds. Thirty-eight agreements on foreign contracted projects and labor affairs cooperation were signed with a total contracted amount of \$25.4 million and a turnover of \$24.67 million.

International tourism revived comparatively rapidly. In 1990, 105,000 visitors toured, visited, or came to engage in various exchanges, a 49.4 percent increase over the previous year. The province's foreign exchange income from tourism totaled \$870,630, a 71 percent increase.

## VII. Finance, Banking, and Insurance

Influenced by a variety of factors, such as the unsmooth market sales, manufactured products overstocking, decreases in enterprises' economic returns, and profits and taxes in arrears, contradictions in incomes and

expenditures were comparatively outstanding. The province's local financial income reached 8.358 billion yuan, 101 percent of the fiscal budget, or a 3.2 percent increase over the previous year if calculated by comparable prices. Of this, 7.499 billion yuan were industrial and commercial tax revenues, showing a 5.4 percent increase. Local financial expenditure totaled 8.962 billion yuan, a 2.2 percent increase over the previous year; of which expenditures on culture, education, science, and public health accounted for 2.377 billion yuan, a 7.9 percent increase.

Financial departments conscientiously implemented the State Council spirit of "not changing careful spending while appropriately readjusting the extent of carefulness" by vigorously raising funds and readjusting the credit structure, thus playing a definite positive role in boosting the economy. At the end of 1990, bank deposits totaled 47.002 billion yuan, a 10.829 increase over the beginning of the year. All loans amounted to 63.728 billion yuan, a 12.413 billion yuan increase over the beginning of the year. Banks throughout the province had total cash deposits of 4.193 billion yuan, a 1.162 billion yuan increase over the previous year. There was a definite breaking of "debt chains," but enterprises' credit funds still accounted for a large proportion of debts, and their turnover rate was slow, fund utilization rate was low, and contradictions between supply and demand were still outstanding.

The insurance industry continually expanded. In 1990, all types of property insurance written totaled 94 billion yuan. Fourteen thousand enterprises joined enterprise property insurance schemes; 8.13 million households joined family property insurance schemes; and 14.4 million people joined schemes of various types of life insurance. Provincial property insurance firms handled 180,000 claims and reimbursed 300 million yuan against all sorts of claims (including life insurance), and helped badly stricken enterprise restore production and operations and ensured people's livelihood.

### VIII. Science and Technology

Scientific and technological personnel increased in numbers. In 1990, the province's local state-owned units had 801,700 scientific and technical personnel of all fields, an increase of 44,400 persons; of whom 440,700 were in societies, an increase of 33,200 persons over the previous year. Of all types of scientific and technical personnel, those with intermediary capability numbered 288,700, an increase of 82,100 persons over the previous year.

As for scientific and technological results, in 1990, the province obtained 1,300 major scientific and technical results, of which 10 reached or neared world-advanced levels, 18 were new inventions or leading results at home, and 62 reached national advanced levels. Twenty-three of the province's scientific and technological results obtained state awards, one was awarded the State Invention Award and 22 were awarded the State

Advanced Technology Award. The provincial government awarded 334 items with the Advanced Technology Award, and awarded 37 with the "Mars Award." Ninety-two percent of the province's key scientific and technological contracts during the Seventh Five-Year Plan were completed. In 1990, 21 million yuan was invested. In 1990, 409 scientific and technological results were directly promoted and applied, producing good economic returns and social benefit. Soft scientific management gradually became standardized and obtained a number of new scientific and technological results.

The development of new technologies and high-technology industries made new headway. In 1990, the province's large and medium enterprises carried out 1,661 items of technological development, of which seven received gold awards, 11 received silver awards, and 471 received provincial Good Quality Awards. The general consumption of standard coal by industrial enterprises at and above the county level and whose total output reached 10,000 yuan each was 6.01 tonnes, a 2.9 percent decrease from the previous year, thus saving 820,200 tonnes of standard coal.

The technology market developed in a healthy way. The commercialization of scientific and technological results was expedited. In 1990, the province signed 15,581 contracts on various technologies, an increase of 860, with the contracted amount totaling 360 million yuan. The province applied to the state for patents for 1,133 items, an increase of 180 items over the previous year; 621 items were authorized, an increase of 127 items. Thirty percent of patented technologies were applied.

Scientific and technological services were strengthened daily. At the end of 1990, the province had 1,808 technical supervisory professionals. They formulated and revised five local standards. In the whole year, there were 41 weather alarm system transmission stations and 886 consumers, and 15 staffed seismic stations and networks and two observational networks. The province made 2,683 topographic maps of various scales, and compiled and published 10 types and 821 sheets.

### IX. Education and Culture

Education continued to develop steadily as educational quantity was controlled, quality was raised, structure was readjusted, and as reform deepened. In 1990, all kinds of ordinary institutions of higher learning enrolled 26,600 undergraduates. There were 80,400 undergraduates at these institutions and 26,100 graduated. Ordinary institutions of higher learning and scientific research units enrolled 334 graduate students. They had 1,037 graduates, and 476 graduated. Intermediary occupational and technical education further developed. All kinds of ordinary intermediary professional schools had 137,300 students, an increase of 10,300 students over the previous year. Agricultural (occupational) schools had 156,100 students, an increase of 11,100 students. Technical institutes had 56,400 students. Ordinary

senior middle schools had 492,600 students. The proportion of students at the senior middle school level at all kinds of intermediary occupational and technical schools rose from 37.9 percent in the previous year to 39.6 percent. Basic education improved continually. Ordinary junior middle schools had 303,300 students. Primary schools had 9.6115 million pupils, 98.78 percent of school-aged children in the province. Kindergartens had 1.1565 million children. Adult education, which emphasized training in occupational and technical skills, also obtained good results.

Cultural undertakings flourished and were brisk. At the end of 1990, the province had 13,566 film-showing units of all kinds. In the whole year, 392 films of all sorts were produced, of which 168 were story films, and 215 were news, scientific, and educational films. Films were shown in 2.01 million sessions in the year with a total audience of 1.76 billion people. In 1990, all sorts of art performance troupes gave 56,000 performances of all themes with a total audience of 6.9482 million people. Mass culture offered all-directional comprehensive cultural services and continued to make new headway. Such institutions as mass art houses, public libraries, and museums were improving continually. Broadcasting and television paid attention to the quality of services and social benefit and obtained comparatively good results. In 1990, the province produced a total of 41 TV films and 85 series, an increase of seven films and 20 series over the previous year. TV broadcasts can reach 88 percent of the province's population, an increase over the previous year. In 1990, 2,190 types of books of all kinds were published, a 14.6 percent increase over the previous year. The province published 803 million copies of newspapers, a 14.6 percent increase over the previous year. All kinds of magazines published totaled 84.60 million copies, a 1.8 percent increase. The "antipornography campaign" produced good results, and the outlook of the cultural market obviously improved.

#### X. Public Health

Health and medical conditions improved continually. The overall service capacity of medical treatment and health care units further improved. At the end of 1990, the number of hospital beds in the province reached 182,100, a 1.4 percent increase over the previous year. There were 222,800 professional health and technical workers, a 2 percent increase over the previous year; of them, 99,400 were doctors, a 3.4 percent increase, and 46,400 were nurse instructors and nurses, a 9.4 percent increase. Epidemic prevention and health care were strengthened. In 1990, there were 189 public health and epidemic prevention organizations, and 11,719 professional epidemic prevention workers, a 5.3 percent increase. New achievements were made in the prevention and control of all kinds of infectious and contagious diseases and chronic diseases. The prevention and control of local diseases were further strengthened, and public health supervision was further reinforced.

#### XI. People's Living Standards

Employment in cities and towns continued to rise. In 1990, the province offered jobs to 220,400 jobless people in cities and towns. At the end of 1990, the number of staff and workers in the province reached 6.9261 million, an increase of 113,800 people over the end of the previous year. Of this number, state-owned units had 521,230 and employed 94,600 on contract, an increase of 87,400 people and 18,500 people respectively; collectively owned units in cities and towns had 170,530, an increase of 24,100; units of other forms of ownership had 8,500, an increase of 2,300 people; and individual laborers in cities and towns numbered 340,800, down 14,700 from the end of the previous year.

Residents in cities and towns continued to earn more income. In 1990, the salaries and wages for the province's staff and workers was 12.386 billion yuan, a 13.9 percent increase over the previous year, of which bonuses of all kinds and additional piecemeal salaries totaled 1.965 billion yuan, a 9 percent increase. The average salary for staff and workers was 1,825 yuan, a 12.1 percent increase. A sample survey of city and town residents showed an average annual per-capita income of 1,152.95 for expenses, a 13.6 percent increase over the previous year; and an average annual per-capita expense of 1,067.67 yuan, an increase of 10.8 percent over the previous year. In 1990, the average per-capita net income of peasants was 482 yuan (or 527 yuan if it was recently calculated). When price hikes were considered, there was a real increase of 5.5 percent.

Urban and rural savings deposits increased by a large margin. At the end of 1990, urban and rural savings in the province amounted to 36.745 billion yuan, an increase of 9.61 billion yuan over the beginning of the year or a 35.4 percent increase, of which urban and city savings deposits were 26.14 billion yuan, an increase of 7.281 billion yuan over the beginning of the year, or a 38.6 percent increase. Social welfare services continued to improve. In 1990, the province had a total of 2,570 social welfare institutions, providing for 34,300 people throughout the province.

Social assurance networks were established in 64.8 percent of the province's townships and towns. The social-welfare service network also improved, and all kinds of social service facilities established numbered 1,910.

There were new improvements in the living conditions of urban and rural residents. In 1990, an additional 5.6732 million square meters of houses in cities and towns were built in the province, and a total of 54.413 million square meters of houses were built for peasants. The province's city dwellers' per-capita living space was 11.14 square meters, and peasants' per-capita living space was 15.99 square meters.

#### XII. Population

According to a sample survey of the province's population changes, in 1990, the province's birth rate was 24.92

percent, the mortality rate was 6.52 percent, and the natural growth rate was 18.4 percent. It was calculated that, at the end of 1990, the province had a population of 86.49 million, an increase of 1.57 million over the previous year end. Note: (1) The GNP, national income, and total outputs stated in this communique were calculated in terms of the prices of the year, and the growth rates were calculated in terms of comparable prices.

(2) Except for the population figure for the end of 1989, which was adjusted according to the fourth census, all base periods of contrasted indicators were official statistical figures published in the "Henan Economic Statistical Annual Report."

### **Tibet Economy on Road to Modernity**

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14 May 91 p 1

[Article by Zhang Chunbao (1728 2504 0202) and Zhou Liang (0719 0081): "Tibet Economy On Road To Modernity"]

[Text] During that great historic moment on 23 May 1953, almost nobody could imagine what the Tibetan economy would be like in 40 years' time. But the fact of the matter is that in just 40 years the Tibetan economy underwent a profound transformation from early feudalism to modernity.

#### **(1)**

Man is the most active element in productive forces. Yet up until the democratic reform of 1959, the Tibetan economy remained under the reactionary rule of feudal serfdom. At the time serf owners made up about 5 percent of the Tibetan population but owned all the land and pastures and the bulk of the livestock. In contrast, serfs, who constituted about 95 percent of the population, had no land, no livestock, no personal freedom. They clung to the land on the manors of the feudal lords and suffered forced excess exploitation. The peaceful liberation of Tibet in 1951 sounded the death knell of feudal serfdom in Tibet. The feudal serfdom economy of Tibet, which went back more than 700 years, finally reached the end of the road in 1959. Democratic reform abolished feudal serfdom. Land was distributed among 200,000 households and 800,000 landless serfs and slaves throughout the region. Henceforth millions of serfs became free men and owners of land and pastures. No longer would labor mean serfdom. Instead it became once again the source of a prosperous and healthy life.

This magnificent transformation in production relations resulted in a reorganization of the various elements of productive forces and unleashed a vital economic energy, which became the engine of economic resurgence for the region. In the hands of new masters, the land produced more food, the pastures raised more cows and sheep, and abundant resources were quickly developed and utilized. Hot on the heels of democratic reform was the arrival of the first golden age in agricultural and

animal husbandry development. Agriculture reaped six bumper crops in a row. In 1965, grain output hit 290,700 tons region-wide, up 66.1 percent compared to pre-democratic reform 1958, while the total number of livestock reached 17.01 million, up 54.6 percent over 1958.

#### **(2)**

A society with only traditional industry cannot achieve social modernization. A society with only agriculture and animal husbandry could only languish in backwardness. For Tibet, the transition from mono-culture to diversified industry marks another era of economic transformation when specialization in agriculture and animal husbandry was followed by another round of mass social specialization. That was the second enormous change in the Tibetan economy.

The authoritative statistical yearbook for 1952 listed only the total output value of agriculture and animal husbandry for Tibet, at 183 million yuan, but gave no figures for industrial output. In 1954, the Qinghai-Tibet Highway and Sichuan-Tibet Highway were opened to traffic, ending Tibet's isolated mutually dependent development between agriculture and animal husbandry that went back 1,000 years. In October 1956, Duodi Power Plant in the outskirts of Lhasa, which had an installed capacity of 660 kilowatt, was completed and put into operation, thus ushering in the rise of new industries in Tibet.

As Tibet's first highway in the modern sense of the word, first airport, first modern factory, first modern mine, first financial institution, and first modern shopping mall took shape on the plateau, Tibet's economy went the way of specialization, giving the region a diversified industrial structure. By 1990, the statistics on Tibet included every modern economic indicator: gross industrial output value, 235 million yuan; electric energy production, 316 million kilowatt-hours; chromium, 93,000 tons; cement, 132,000 tons, carpets, 16,800 square meters; total highway freight volume, 741,800 tons; posts and telecommunications services, 16.30 million yuan; and total social commodity retail sales, 1.48 billion yuan.

#### **(3)**

The third change in the Tibetan economy is the transition from a closed natural economy to an open commodity economy.

At a time when the commodity economy already established itself as the hallmark of modern economic civilization worldwide, the natural economy still dominated the Tibetan economy where commodity exchange remained essentially a form of barter trade. That paper money was unknown and that metal money was the main medium of exchange suggest that the Tibetan economy was still far removed from the world economic mainstream. Tibetan economists have pointed out that geographical isolation was not the main reason why

Tibet remained in a closed natural economy for so long. It was the corrupt and dying feudal serfdom that prevented the emergence of a modern economic civilization and trapped the Tibetan economy in a repetitive cycle of simple agriculture and animal husbandry for a long time.

A decade of reform and openness has pushed the tidal wave of the commodity economy toward the Tibetan plateau. Go up to the plateau today and you can see a remarkably bustling country fair market in Naqu, Ali, and other places 4,500 meters above sea level. The "Commercial Street" is filled with shops and peddlers can be seen even in the no-man's land 5,000 meters above sea level. Barter trade, in which agricultural products are exchanged for livestock, salt for grain, still exists, but the currency is playing an increasingly important role in the economic life of the Tibetan people. Grain and livestock products have entered the realm of circulation as commodities. The astute highlanders have caught a glimpse of the world outside Tibet. They can be found in a number of large- and medium-sized cities in the interior engaged in all sorts of economic activities.

In the 1950's and 1960's, Tibet conducted small-scale border trade with neighboring countries. Now, thanks to the spring breeze of the commodity economy and modern transportation, that has changed. Today Tibet not only has developed extensive barter trade with its neighbors in South Asia, but is also engaged in oceanic trade with over 20 countries and regions in Asia, Europe, and America. Tibetan carpets, wool, Chinese herbal medicine, and native local products are popular on the international market. Statistics show that Tibetan exports and imports amounted to \$30.21 million in 1990.

(4)

The change in the mode of economic operations is a function of reform and the open policy. Hand in hand with this change is a shift in the pattern of ownership: the fourth change in the Tibetan economy. Instead of just one ownership system, now multiple economic forms coexist.

The coexistence between multiple complementary economic forms is a method of economic development that the central government and Tibet discovered to be suitable for Tibet after decades of search. In 1984, the CPC Central Committee decided on the principle of opening all Tibet to the outside world and revitalizing the economy, emphasizing the collective and the individual and stressing market regulation. What we have in Tibet today is coexistence among three kinds of ownership systems—state ownership, collective ownership, and individual ownership. A pattern of relations of production in the initial stage of socialism characterized by the reality in Tibet is basically in place. Statistically, there are 14,470 individual households in the commercial sector alone, employing a total of 17,712 people, while the state-owned commercial sector consists of 370

units with 6,066 people. The corresponding figures for collective enterprises are 632 units and 4,458 people.

Changes in the ownership system, the emergence of several economic components, the diversification of industry, and the burgeoning socialist commodity economy have opened up a brave new world in the Tibetan economy and provide an arena where people of all nationalities in Tibet can put their talents to full use. The 10-Year National Economic and Social Development Plan of the Tibetan Autonomous Region as well as the Eighth Five-Year Plan have been adopted by the autonomous regional people's congress. We trust that the Tibetan economy is on the threshold of a new take-off.

## FINANCE, BANKING

### Joint Financial Firm Opens for Business in Shanghai

OW1305164691 Beijing XINHUA in English  
1440 GMT 13 May 91

[Text] Shanghai, May 13 (XINHUA)—A joint financial firm formed by Chinese and overseas banking institutions opened for business here today.

The International Financial Company was co-invested by the local branches of the Bank of China, the Bank of Communications, the Sanwa Bank Ltd. of Japan and the Hong Kong Bank of East Asia.

The new firm will engage in a number of business services in foreign currencies, including lending, discounting, investments, guarantees, trust dispositive, trust investments, credit investigations and consultation.

State Councillor and Governor of the People's Bank of China Li Guixian and Shanghai City Mayor Huang Ju attended today's opening ceremony.

### Bank of China Supports Pudong Development

OW1705150391 Beijing XINHUA in English  
0618 GMT 17 May 91

[Text] Beijing, May 17 (XINHUA)—The Shanghai Pudong branch of the Bank of China opened business Thursday, according to today's OVERSEAS EDITION of the PEOPLE'S DAILY.

At the opening ceremony, Wang Deyan, governor of the Bank of China, said that his bank will go all out to support the development of the Pudong area.

In the next two years, the bank will grant an annual total of 200 million U.S. dollars in foreign exchange for infrastructure construction in the area; China's mainland-funded banks in Hong Kong and Macao regions will offer another annual total of 200 million U.S. dollars in short-term working funds to support those enterprises processing client-supplied materials or parts.



The Bank of China intends to set up Sino-foreign joint banking units with foreign banks, in a bid to offer fine services for the development of Pudong.

The bank is also ready to help train personnel involving foreign exchange handling, and will set up the Shanghai International Financial Personnel Service Company.

The Bank of China and China's mainland-funded banks in Hong Kong and Macao regions will participate in the construction of a power plant, bonded warehouses and harbor facilities in the Waigaoqiao area.

The Pudong branch bank will be independent in accounting, and it will enjoy preferential policies in profit-sharing, fund supply and purchasing equipment.

The Bank of China will focus its attention on supporting export-oriented enterprises and foreign-funded businesses in the Pudong area.

It will raise 100 million U.S. dollars to build an international financial center in Pudong.

### **New Financial System Takes Shape in Shanghai**

*OW2206172991 Beijing XINHUA in English  
1501 GMT 22 Jun 91*

[Text] Shanghai, June 22 (XINHUA)—A new financial system led by the securities, foreign exchanges and short-term monetary markets is taking shape in Shanghai, China's leading financial city.

By the end of 1990 more than 2,700 companies in the city had issued bonds, stocks and other kinds of securities worth a total of 2.5 billion yuan, said an official from the working committee on foreign investment. The amount exceeds three billion yuan if state bonds are included.

It is estimated that about one million of the city's 13 million residents are involved in securities transactions.

The official said that the transaction volume of foreign exchange had reached 1.85 billion yuan by the end of last year.

Foreign banks also have a growing share in the financial markets of the municipality. There are more joint-venture banks and solely foreign-operated banks in Shanghai than in any other part of China. To date, the municipal government has approved the opening of six foreign bank branches in the Pudong new development area of Shanghai.

In the meantime, more than 20 foreign banks have applied to set up branches in Shanghai, the official said.

## **MINERAL RESOURCES**

### **Nonferrous Metals Industry Seeks Foreign Investors**

*HK2306021491 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 23 Jun 91 p 1*

[By staff reporter Huang Xiang]

[Text] A senior Chinese official in the nonferrous metals industry has revealed a package of projects to attract foreign investors and technologies.

Zhang Jian, vice-president of China National Nonferrous Metals Industry Corporation (CNNC), told BUSINESS WEEKLY that overseas assistance is "extremely important" to the development of the corporation's 11 major projects, scheduled for construction before 1995.

The proposed undertakings involve production of lead, zinc, silver, gold, tungsten, molybdenum, aluminium oxide, copper, silicate cement and hard alloys. Zhang said all these products are vital to the nation's economic growth.

Construction of the projects, some of which are actually expansion and renovation projects, is part of the industry's development programme during the Eighth Five-Year Plan period (1991-95).

Zhang said the core aim of the move is to use more foreign funds and technology to increase and upgrade the industry's production capacity.

Industry sources said much of the equipment and technologies of the corporation are known to be obsolete. They noted that the 11 newly-designed projects are selected in the wake of smooth and fruitful contacts with foreign investors in several other joint projects.

Zhang, in an interview with BUSINESS WEEKLY, confirmed that the corporation is "close to making substantial deals with foreign firms in building several nonferrous metal projects."

For the 11 projects, Zhang said, various forms of cooperation are encouraged, including joint venture, the use of government and commercial loans, and compensation trade.

Zhang promised that his corporation will, as usual, improve the local environment in order to attract foreign investors.

Measures include improving such basic infrastructures as communications, energy supply, organizing production on international standards, and conducting trade in accordance with international practice.

As a major corporation long active in this field, Zhang said CNNC needs overseas help to boost output to meet the demand for nonferrous metal.

The priority development of raw materials has been included in the government's central planning up to 1995, along with energy, transportation, automobile, electronics and the building industry.

The development of these sectors opens up a bigger market for domestic nonferrous metal industry, as well as foreign partners, said Zhang citing the energy industry to illustrate his point.

The nation's electric power industry is required to install around 10 million kilowatts of generating capacity a year up to 2000. Zhang said that the requirement is equivalent to an annual demand of one million tons of copper and aluminium.

So the construction of new and expanding projects is inevitable, creating opportunities for more foreign participation.

The corporation has decided to earmark 10 billion yuan (\$1.87 billion) for technological renovation of the industry during the five years.

The amount is comparable to the total investment CNNC spent on capital construction during the previous five years up to 1990.

And the employment of foreign capital is also expected to be on the increase in the decade, according to Zhang, adding that the introduction of foreign capital and technologies has been high on the corporation's working agenda.

At present CNNC is considering opening representative offices in Pudong New Area of Shanghai, Xiamen, Fujian Province, and Huangdao of Shandong Province. These are designed to target potential investors from Taiwan, Japan, and South Korea.

In the past several years, CNNC has set up offices in almost all China's special economic zones in addition to more than a dozen overseas agencies.

## INDUSTRY

### More Flexible Textile Pricing Mechanisms Recommended

91CE0552A Beijing *JIAGE LILUN YU SHIJIAN*  
[PRICE: THEORY AND PRACTICE] in Chinese No 3,  
20 Mar 91 pp 28-30

[Article by Liao Bu (1675 0592) and Xiao Li (2556 7812): "China's Textiles Market Needs More Flexible Pricing Mechanisms"]

[Text] Textiles price reform is now in a "double bind." On one hand, rigid price rises for textile raw materials are forcing textile prices up while, on the other, the soft market is unable to bear increased textile prices. Although the state put uniform fixed prices into effect for textiles at the end of 1989, this price readjustment certainly did not achieve ideal results due to the market

slump. In particular, while the prices of intermediate textile products, such as cotton yarn and grey cloth, were basically rationalized, those of final products, such as printed and dyed cloth and yarn-dyed fabric, were only 90 percent rationalized. In September 1990, the cotton supply price (for No. 327 standard cotton) was raised from its 1989 price of 258 yuan per dan to 329 yuan per dan, which forced another rise in textile prices by the end of October. Even more difficulties were experienced in this price readjustment, with the prices of cotton yarn and grey cloth being rationalized 95 percent and 80 percent, respectively, but the prices of final products, such as printed and dyed cloth and knitted replicas, ending up lower even than the 1989 state-set uniform prices. According to commercial sector statistics, textiles sales turnover was 39.9 billion yuan in 1988, 34.1 billion yuan in 1989, or a drop of 14.5 percent, and 12.5 billion yuan in the first half of 1990, or 30.5 percent less than the 18 billion yuan for the first half of 1989. Along with the domestic market slump, we are also facing the danger of a large decrease in export earnings. As we are confronted with such a grim situation, we could try the following three alternatives for further deepening textiles price reform, which is now caught in a dilemma:

1. We could raise the cotton procurement price, maintain the supply price, and subsidize the difference. This method, which the state used in 1979 and 1980, could still be used. Its advantage is that it could protect peasant cotton-cultivation initiative, while avoiding the shock that could result from large continued textile price increases. While this could be regarded as a fairly safe plan with little risk, it is out of line with our long-range price reform orientation, because it would require increased subsidization;

2. We could establish a textiles price stabilization fund with which to rationalize prices step by step. This plan grows out of consideration for the production and marketing difficulties that textile enterprises experience due to the limited capacity of markets to bear large textile price increases. In order to prevent price-slashing by enterprises in a scramble for markets, state finance departments and banks could set aside a textile price stabilization fund with which to rationalize textile prices step by step. The advantage of this alternative is that this fund could be used to regulate textile market demand, in order to regulate prices and stabilize production. That is, when market prices exceed rational limits, textiles controlled by this fund could be sold in large quantities to bring prices down. And when enterprises face production and management difficulties due to sharp drops in market prices, this fund could be used to buy textiles, in order to stabilize textile prices and protect the interests of production enterprises. However, this plan is not very realistic, and would be very hard to put into practice, because the current national and local fiscal shortages and ever-fluctuating market demand would make it very hard to set aside such a fund with which to create a textile price regulation "reservoir."

3. We could readjust textile and cotton prices at the same time. "Synchronized readjustment" is a topic that should be raised in finished product price reform. Its advantage is that it takes the interests of both workers and peasants into consideration, by enabling textile enterprises to promptly assimilate and pass on cotton price rises. But this could only be regarded as an expedient measure, because it is practically inoperable as a long-range textile price reform plan. This is because it is premised on a textiles sellers market, which does not conform to actual current textile market demand. Moreover, "synchronized readjustment" is often not actually synchronized, due to the limitations of many system factors and chains of policy procedures. Such delayed reaction is bound to cause production enterprises undeserved economic losses. The available data shows that, as domestic cotton prices are likely to continue to rise, all the way up to or even higher than international market prices, "synchronized readjustment" is bound to put textile prices in a state of frequent fluctuation. In particular, as we are pursuing a policy of "stability being the overriding factor," and joint price readjustments are bound to create waves of market price increases, this idea is also impractical.

We think that, in order to extricate ourselves from our textile price difficulties, we should begin by remolding our textile price regulation mechanisms to raise the quality of our textile enterprises. We must adopt comprehensive administrative measures, and stop talking about prices in isolation, which is precisely the basic defect of the three abovementioned plans. Our tentative plan to further reform textile prices is to adopt a policy of "stabilizing primary raw materials prices, dredging circulation channels to control intermediate product prices, and deregulating final product prices," by gradually deregulating textile prices, and establishing a set of flexible textile pricing mechanisms through price reform practice.

1. We should "stabilize primary raw materials prices," mainly cotton prices. While maintaining cotton price stability depends on ensuring stable cotton output, our reform experience of the last decade shows that it is precisely in the area of cotton output that the defects of out-of-control macroeconomic planning and poor efficiency exist in China. China reaped an unprecedentedly bumper cotton harvest in 1984, for an annual output of 120 million dan. But as cotton was so plentiful, the state eased regulation and control over cotton production and marketing planning for a time, which caused cotton-selling difficulties in various areas. In addition, as we experienced shortages of the agricultural means of production, such as chemical fertilizer and pesticides, waves of price rises, increasing cotton cultivation costs, a further widening of the price ratios between grain and cotton, and increasing numbers of peasants switching from cotton to grain cultivation, our annual cotton output dropped sharply to only 63 million dan by 1989. This put many large- and medium-sized cotton-spinning enterprises in a state of being shut down or half shut

down, and the increasing raw material shortages, which are the primary limiting factor for cotton-spinning industrial development, also drove cotton prices up.

While sharp increases in cotton prices is certainly one factor that drives up production costs and lowers comparative earnings, increased demand is another factor that cannot be ignored. China's cotton-spinning manufacturing capability now far exceeds our raw materials supply. While China had only 23 million spinning spindles in 1985, this number had risen to 36 million by 1989, for an increase of over 10 million in four years, which far exceeded the state-planned development pace for the Seventh Five-Year Plan. Our planned cotton yarn output for 1990 was 23 million pieces, requiring only 26 million spindles, which left over 10 million spindles of manufacturing capability lying idle. Faced with such large raw cotton shortages, regional interests drove all areas to vie to buy cotton, while producing areas also kept as much cotton as they could, which lowered year by year the fulfillment rate of the state's raw cotton allocation plans. Thus, along with reforming our present fiscal system and dismantling regional "barriers," the key to stabilizing cotton prices is to firmly cut back and reorganize our cotton-spinning manufacturing capability. The state must take forceful steps to close down, merge, and upgrade cotton mills that have high consumption and poor quality, and supply our limited cotton resources to large key enterprises that have good efficiency. This will not only not affect textile market supply (as quite a few large- and medium-sized enterprises are now actually in a state of being shut down or partially shut down due to a lack of raw materials anyway), but will contribute instead to the establishment of a more rational system of regional division of labor and cooperation, and expedite the structural adjustment of our textile industry.

In order to prevent large fluctuations in cotton production and protect the initiative of peasants to cultivate cotton, the state should consider establishing cotton futures markets in cotton-producing areas. The tentative idea here is to set up cotton commodity exchanges in certain selected cities in cotton-producing areas. Before new cotton is put on the market, brokers, producers, and commodity dealers would reach agreement on cotton prices and delivery volume based on factors, such as market condition forecasts, climatic fluctuations, and production costs. These exchanges would use a membership system under the leadership of a board of directors. Customers (textile enterprises and dealers) would commission brokerages to handle their orders through futures trading. Futures contracts should include items such as commodity price, delivery date, and delivery volume. Futures contracts should be binding once they are signed, and futures trade contracts should be included in state material allocation plans. Bringing the value protection function of futures markets into full play would prevent or reduce possible losses to cotton

farmers from natural disasters and fluctuations in comparative commodity prices or currency value, and guarantee the textile industry a stable source of raw materials.

2. We should dredge circulation channels to control intermediate commodity prices. As the "two kinds of yarn" and the "two kinds of cloth" are still key means of production and export-earning commodities, their prices directly affect final commodity prices and exports. Moreover, as they are still in short supply, their prices should not yet be completely deregulated all at once. But as fluctuations in the economic climate and costs are uncertain at present, and primary products such as the "two kinds of yarn" and the "two kinds of cloth," account for about 80 percent of raw materials costs, we should moderately expand the scope of primary product price fluctuations, in order to gradually evolve state-guided prices. That is, within the scope of state-set standard intermediate prices and state- or province- (municipality-)set fluctuating prices, responsible industrial departments should set coordinated prices for their departments, or fix coordinated prices based on supply and demand among enterprises.

3. We should deregulate the prices of final products that are directly market-oriented, especially those of printed and dyed cloth. As clothing prices are already completely deregulated, and the prices of printed and dyed cloth are actually being set by market supply and demand, it is no longer necessary to continue to control the prices of printed and dyed products. In particular, after several major fluctuations, textile market demand has begun to stabilize by shifting from quantitative demand to structural demand, and the sellers market has changed to a buyers market. Deregulation of final product prices not only will not cause new market fluctuation, but is instead an inevitable requirement of textile market demand fluctuation.

In the 40 years since the founding of the PRC, China's textile industry has undergone roughly three periods of development, i.e., the recovery period from 1949 to 1952, the growth period mostly to meet domestic demand from 1952 to 1981, and the period of export-orientation and active participation in international market competition since 1982. The dividing line between the last two periods was marked by the point when domestic textile retail turnover accounted for its biggest percentage of consumer goods retail turnover. Since 1982, domestic textile consumption has been accounting for a progressively decreasing percentage of consumer goods retail turnover. While textiles accounted for 15.53 percent of the Chinese cost of living in 1984, this figure had dropped to 12.3 percent by 1989.

The prospects for China's textiles market for the 1990's are that our textile consumer market will experience a gradual structural shift from mostly clothing consumption to mostly industrial consumption. The experience of developed countries and regions is that, in the stage when the clothing market is generally soft, expansion of

the textile market relies mainly on expanding industrial textiles into developing industries and an increased use of ornamental cloth. Moreover, a big increase in the use of industrial textiles generally accompanies the spread of the automobile. Clothing actually accounts for as much as 80 percent of China's textiles consumption. As long as it is impossible for us to achieve a major development in industrial textiles, we will have no major growth in our domestic textiles market. Those concerned predict that our automobile development plans for the year 2000 will require about 120,000 tons of tire cord fabric a year, about 70 percent of which will be used for light-duty vehicles, sedans, and buses. As China's current tire cord fabric output has reached 78,000 tons a year, we will be able to meet late 20th century demand for tire cord fabric as long as we maintain a low average output growth rate of 3.3 percent a year.

4. We should gradually change our existing textiles price formation mechanisms, by bringing the dredging and regulatory roles of price levers into full play in the textile market.

Our present method of setting prices for cotton textiles and printed and dyed products was formulated in the 1960's, and has never been basically changed over the last three decades. Our textiles price reform experience in recent years has proved that this pricing method, which was established within the setting of a product economy, is no longer suited to our need to develop a commodity economy. Faced with complex and ever-changing market conditions, this pricing method seems increasingly rigid and slow in reacting. For instance, after the new cotton prices went into effect in April 1989, their impact on textile prices caused the industrial sector a loss of 2.5 billion yuan. And when textile prices were value-adjusted at the end of December 1989, even though the market was in its most depressed period, the old pricing method was still used to set cotton textiles prices by the book. Our textiles price adjustment at the end of October 1990 similarly ignored the fact that market sales were not going well, so that state-set retail prices for final products, such as printed and dyed cloth and knitted goods, were even higher than market retail prices, which was undoubtedly like adding frost to the snow of the already soft textiles market. An even greater mockery of the facts was that our February 1988 textiles price adjustment ignored market realities, by setting maximum prices for cotton yarn and grey cloth that had long since actually been exceeded in all areas, which left this price adjustment document a mere scrap of paper. All of these examples show that our current rigid and slow-reacting textiles pricing system is no longer suited to our need to develop a market economy. It should be changed thoroughly and replaced with a set of flexible price regulation mechanisms, so that our textiles list prices are in line with changing production costs, while reflecting market supply and demand. We should gradually open up the price differences among the variety of textile colors and designs so that, without exceeding state pricing guidelines, production enterprises have the

authority to set new and high-quality product prices according to production costs and market conditions. This would help to eliminate the longstanding dispute between industry and commerce over the authority to set prices for high-quality textiles, while arousing the initiative of enterprises to upgrade their production technology, enhance their management and administration, and optimize their product mix.

## FOREIGN TRADE, INVESTMENT

### Case Study of Serious Problems Confronting FIE's

91CE0537A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 3, 30 Mar 91 pp 52-54

[Article by Chen Qunwu (7115 5028 2976), Zhou Kecheng (0719 0668 2052), and Zhang Yuping (1728 3768 1627): "Problems Confronting Foreign-Invested Enterprises, and Their Solutions—An Investigation of Foreign-Invested Enterprises in Handan"]

[Text] Presently Handan Municipality has approved the establishment of 12 foreign-invested enterprises [FIE's]. Nine of them have become operational, and have a total investment of \$168,054,000. Their registered capital amounts to \$24,328,000, and their foreign capital utilization equals \$10.9 million, accounting for 44.8 percent of the registered capital. By the end of July 1990, their gross value of industrial output equalled \$43.09 million, tax payments equalled \$976,000, and export revenues totalled \$6,235,100, increases of 144.8, 133.5, and 186.9 percent respectively over the same period in 1989. These FIE's have started playing important roles in foreign capital utilization, importing advanced technologies and management, expanding exports and generating foreign exchange, and expediting the development of an externally-oriented economy.

However, sufficient attention should be paid to promptly solving the problems that confront these FIE's as they handle international business, manage internal production, and improve the external climate.

**1. There are many enterprises with deficits, and they are incurring great losses.** Between January and July 1990, five of the nine enterprises in operation incurred losses as high as \$5,871,000. In the textile industry in particular, all four of the operating enterprises incurred losses totalling \$5,857,000 between January and July; this accounted for 99.76 percent of total losses. The enterprise that suffered the most lost a total of \$2,482,000. The major contributing factors are as follows: In recent years, production costs have risen sharply as a result of large increases in the prices of raw and supplementary materials. In addition, many other expenses and fees are generally higher for FIE's than for state-run enterprises. On the other hand, export prices are not only kept at a low level and prevented from rising, but they are falling

and are even lower than import prices. This makes it difficult for enterprises to survive.

**2. Production capacity falls short of planned requirements.** Three limited-liability textile companies in Handan were designed to have 89,000 spindles and handle 73,000 pieces of cotton yarn, but their actual existing production capacity is far from the design. In addition to such factors as shortages of raw cotton and power, the most important cause is imported equipment's failure to meet the quality and technical requirements of the original design. For instance, a carding machine and slubbing drawing frame imported from Britain by a limited-liability textile company function anything but normally, because they did not meet the requirements specified in the order. The British side has sent experts to Handan four times to service the equipment, but the efforts proved ineffective. At present the company is working on the issue of claims. Based on investigation, the equipment imported by other FIE's in the textile industry also faces various problems to a different extent. The failure of production capacity to function normally has directly affected the implementation of the export plan. In 1990, the Ministry of Foreign Economic Relations and Trade issued export licenses to these three Sino-foreign cooperative enterprises, which planned to export 50,000 pieces of cotton yarn. According to the enterprises' predictions, they would only be able to produce 38,700 pieces.

**3. Chinese interests are infringed upon with regard to the marketing of goods.** This is reflected principally in the prices of goods. Some FIE's in the textile industry did not conclude their contracts in a stringent manner. In the clause concerning the foreign side's liabilities, it was stated only in principle that "the foreign side shall be responsible for the marketing operations for all of the cooperative enterprise's qualified products." There were no provisions for other conditions governing the marketing process, and thus the interests of the Chinese side were damaged. For example, a Hong Kong investor quoted a price of \$590 per piece for the 32-count combed cotton yarn produced by a limited-liability textile company; he was able to sell it for between \$607 and \$690 per piece. The investor quoted a price of \$410 per piece for the 32-count carded cotton yarn produced by another limited liability textile company, and was able to sell it for between \$470 and \$480. As one of the shareholders, the foreign investor is supposed to remit revenues from actual sales in international markets back to the enterprise and record them as the enterprise's actual sales revenues. But foreign investors unilaterally determined the settlement prices, and they never disclose the prices at which they resell the products. The "cooperative relationship" therefore becomes in essence a "trading relationship." In 1990 the two enterprises mentioned above planned to export 30,000 pieces of cotton yarn. Assuming a price differential of \$60 per piece, they would incur losses of \$1.8 million. The losses would exceed at least 10 million yuan when converted at the state's lowest exchange rate designed for internal settlement.

**4. Preferential policies were not fully implemented.**

According to regulations, FIE's should be given preferential treatment with regard to supplies of raw materials, funds, electricity, and transport, but it is extremely difficult to put the regulations into practice. First, there is a shortage of raw cotton. Since last year, raw cotton for foreign-invested textile enterprises has been in rather short supply. Even rationing quotas have not been honored. Furthermore, raw cotton is inferior in quality, but sold at a high price. Second, funds are insufficient. Working capital is in short supply for seven out of the nine FIE's already in operation. The seven enterprises would normally need 70 million yuan in working capital, but currently only 44,536,000 yuan is available. Also, it is rather difficult to get loans from the banks. Third, quotas for electricity use are not honored. Four FIE's already operating in the textile industry need a total power supply of 9,000 kilowatts. According to relevant regulations of the provincial government, supply of this much power is supposed to be officially guaranteed by the province, yet so far there has been no trace of it. At present, the four enterprises must rely on taking over other enterprises' power supply quotas. Power use is not guaranteed, and power failures are routine. A limited-liability textile company, for instance, experienced more than 20 power outages last June. Fourth, access to transportation is not guaranteed. A limited-liability textile company, for example, had to switch from sea to rail transportation. They needed 15 rail cars per month, but were only given 17 to use in all of June and July, 1990. Since it began trial production in November 1988, a limited-liability knitting company has never been included in the plan for rail car use. It still depends on two trucks to transport its products. The high risks and expenses associated with this have contributed to a 1,000-yuan per ton rise in the cost of their cloth.

**5. Operational autonomy is restricted.** A limited-liability ceramic company has been operating since January 1988. Due to various factors, the relevant department of the provincial government permits it to export only 1.5 million pieces per year, or 12.5 percent of its annual production capacity of 12 million pieces. The remaining products are purchased by the foreign trade department as they were in the past. However, the foreign trade department purchased only 2.3 million pieces in the first half of 1990 and contracted for only 600,000 pieces in the latter half of the year. Although the company presently has a contract to export 3 million pieces, it cannot export that much because of the unavailability of a license. Another example is a limited-liability, automated office equipment company. According to the provisions in the contract signed by both parties, the foreign party would provide 118 picture/word processors as its major investment. The first shipment of 40 sets moved smoothly through customs after they were declared and examined. However, when the second shipment of 78 sets went through the declaration procedures at another customs post on 19 February 1990, it was held up and investigated due to inconsistencies between the product name and model as filed in the

manifest and those recorded in the manual of incoming goods. The shipment is still being held, and an investigation into the whereabouts of the first shipment of 40 sets will be made. According to a translation of the manual, customs believed that the product fell into the category of a "personal photocopy machine" and was therefore subject to customs duties as stipulated by law. But a modification could convert the product into a machine that combines the functions of a facsimile and a photocopier, and was named a "picture/word processor"—which should not be subject to customs duty—by both parties in the joint venture. On 20 March 1990 customs gave the company formal, written notification to stop selling the product. The problem must still be resolved. At present the company can only maintain its status quo by relying on sideline production.

Furthermore, the boards of directors in some enterprises are not well established. They are mere formalities, and cannot hold board meetings for a long period; thus it is impossible to decide some major issues. To date some foreign partners have not paid the full amount of their shares, as agreed upon in the contract. This makes it impossible for enterprises' capital to be verified. Some enterprises are not allowed to export, and therefore cannot balance their foreign exchange accounts on their own. In some instances, FIE's face frequent administrative intervention and the serious phenomenon of sharing social burdens.

The existence of the above-mentioned problems has created difficulties for the production and operation of enterprises, and it has even driven some enterprises to the brink of bankruptcy. In order to solve these problems and further improve the FIE's, the following measures are suggested.

**1. Enhance the study and dissemination of foreign-related laws and regulations.** The leadership at various levels, especially those in the FIE's and departments supervising them, should seriously study the relevant laws and regulations, as well as policy documents such as the "Regulations on Sino-foreign Joint Ventures" and the "Regulations on Sino-foreign Cooperative Enterprises." They should constantly deepen their understanding and enhance their awareness of using laws to govern FIE's. At the same time, they should organize and plan seminars on international matters so as to continuously train and bring up a large group of international management personnel who have technical knowledge, can manage businesses, are familiar with their professions, and are good at dealing with foreign businessmen.

**2. Provide policy support for enterprises running deficits.** The problem of losses is in fact a problem of pricing, and it is centered in the textile industry. Presently foreign businessmen purchase only those products that meet their standards. In view of this, it is first suggested that the issue be actively brought to higher levels. There should be a request to base prices on quality, and the price for high-quality cotton yarn should be adjusted upward appropriately so as to bring it to a reasonable

level. Second, marketing should follow the approach of using multiple ports, multiple channels, and multiple forms. For products that are difficult to export under the local provincial administration of foreign trade, the relevant provincial department should permit enterprises to export the products through other ports. For products that must be sold domestically due to export difficulties, tax departments are suggested to apply preferential policies and reduce the uniform industrial/commercial tax, so that those enterprises may be treated the same as state-run enterprises. At the same time, the circulation markets for raw cotton should be further rectified and strengthened, with a view to eliminating the phenomenon of price hikes disguised in the form of inferior and fake products. This will ensure that enterprises can obtain raw cotton of a commensurate grade within the stipulated price range. Enterprises should strengthen their internal management, and actively carry out the campaign of "double-increase and double-economy." They should reduce inputs and costs in order to improve economic efficiency, and reduce and make up losses to increase surpluses.

**3. Absorb imported equipment better.** The imported equipment is advanced, but not without its problems. It is not a forbidden zone either. While claims regarding problems with the imported equipment of FIE's should be actively pursued, it also necessary to organize relevant technicians or relevant specialists to do serious analysis and research; transform the imported equipment by boldly operating on its shortcomings; and try every means to expeditiously reach its designed capacity. In addition, when importing equipment in future, we should learn lessons with an eye to enhancing market surveys, appraisals, and testing. This will be in order to avoid economic losses as a result of errors in the work.

**4. Improve the investment climate further.** Given the present circumstances, where the infrastructure and accompanying facilities are incomplete, and energy, raw materials, and funds are in short supply, it is suggested that protective policies be applied to the FIE's. Special support should be extended to enterprises that operate consistent with state industrial policy, can generate foreign exchange, and that suffer temporary losses but have promising futures. For supplies of raw materials that are allocated under state directives, a balanced arrangement should be made to allocate specified quantities of the materials—in the same ratio accorded to state-run enterprises—to FIE's, and delivery should be guaranteed. Supplies of materials not subject to allocation under a plan should be given to FIE's on a preferential basis. It is necessary to specify relevant departments' concrete responsibilities, terms of reference, and their obligations for administering to FIE's with regard to the links between the entry, transport, and exit of materials. This could overcome the phenomenon of passing the buck, where "everybody's business is nobody's business." It is imperative to evaluate and classify as soon as possible products that are currently unavailable in China or that are not clearly categorized. It is important to further

improve work styles and administrative efficiency, bear firmly in mind the idea of serving the enterprises, and strictly forbid departments from suppressing or making things difficult for enterprises. FIE administration should be gradually brought under the legal system, in order to prevent such behavior as disobeying laws, although they exist; violating laws, and not being investigated; replacing laws with verbal instructions; and pursuing departmental interests without regard for enterprise interests. State interests are to be protected, as are enterprise interests. Operational autonomy for FIE's should be ensured.

### Value of First-Quarter Imports From Various Countries

HK0905114391 Beijing CEI Database in English  
9 May 91

[Text] Beijing (CEI)—Following is a list showing the value of China's import from various countries and regions in the first quarter of 1991, released by the General Administration of Customs:

Country and Region	Imports, Jan-Mar 1991	Imports, Jan-Mar 1990
Hong Kong/Macao	299,537	247,502
Taiwan	54,742	34,908
Japan	164,238	146,988
ASEAN nations	71,736	53,433
Indonesia	29,093	13,228
Malaysia	16,991	13,040
The Philippines	2,062	1,917
Singapore	14,128	17,667
Thailand	9,462	7,581
Brunei		0
Bahrain		0
Bangladesh	811	38
Burma	2,239	2,418
Korea	1,701	2,462
India	2,140	2,466
Iran	259	139
Iraq	0	1,129
Kuwait	0	514
Nepal	67	166
Oman	3,793	863
Pakistan	920	2,344
Qatar	1,603	334
Saudi Arabia	966	760
South Korea	16,464	12,162
Sri Lanka	280	30
Turkey	1,572	1,664



Country and Region	Imports, Jan-Mar 1991	Imports, Jan-Mar 1990
The United Arab Emirates	2,584	461
EEC	176,292	153,017
Belgium	4,881	5,474
Denmark	1,428	1,666
Britain	24,942	32,290
FRG	70,225	49,693
France	30,470	26,132
Ireland	191	153
Italy	25,877	21,165
Luxembourg	28	346
The Netherlands	7,155	10,709
Greece	348	10
Portugal	536	66
Spain	10,212	5,315
Algeria	0	194
Egypt	3	
Libya	839	
Zaire	62	138
Albania	134	333
Bulgaria	2,868	3,253
Czech and Slovak	3,053	10,489
Hungary	1,302	3,432
Poland	3,327	5,897
Romania	3,817	6,930
Austria	8,027	5,306
Finland	4,751	2,711
Norway	3,336	4,206
Sweden	7,236	4,679
Switzerland	7,565	9,428
Soviet Union	48,674	41,014
Yugoslavia	406	2,112
Argentina	4,054	9,611
Brazil	6,704	10,228
Chile	1,266	733
Cuba	4,478	5,102
Mexico	5,677	937
Peru	1,105	442
Canada	25,361	26,220
U.S.A.	123,912	139,084
Australia	28,077	18,071
New Zealand	2,898	2,855

(Unit: \$10,000)

### Shanghai Approves More Foreign-Funded Projects OW1005125991 Beijing XINHUA in English 1225 GMT 10 May 91

[Text] Shanghai, May 10 (XINHUA)—During the first four months of this year, east China's Shanghai Municipal Government approved the establishment of 106 new foreign-funded projects with the total contracted investment of 91.22 million U.S. dollars.

The number of foreign funded projects approved during the period was 212 percent of that in the same period of last year while the contracted investment was up by 45 percent.

To date, the municipal government has approved the establishment of 1,017 foreign funded enterprises with the total investment nearing three billion U.S. dollars.

Amongst the foreign funded enterprises, 823 were involved in local industries. And of the 106 companies approved in the first four months of this year, 100 were involved in industrial production.

Many of the foreign investors are among the world's largest companies. They include American Telephone and Telegraph, Du Pont, the 3M Company, L'Air Liquide of France, Philips, Bell Telephone Manufacturing Company, the Mitsubishi of Japan, and the Chia Tai Company Ltd. of Thailand.

The largest investors in the municipality thus far this year are SC Johnson and Son, Inc from the United States. Johnson and Son allocated more than 29.7 million U.S. dollars to form a second joint venture in Shanghai which will produce cosmetics.

A Shanghai official said that by the end of 1990, more than 400 of the foreign-funded enterprises had gone into operation. The proportion of their industrial output value to the city's total industrial output value rose from 3.3 percent in 1989 to 5.5 percent in 1990.

## LABOR

### China Faces Fourth Unemployment Crisis 91CE0435A Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 222, 16 Mar 91 pp 28-31

[Article by Hsia Yang (1115 7122): "How Will China Cope With a Fourth Unemployment Crisis?"]

[Excerpts] [passage omitted] According to estimates from China's Ministry of Labor, due to rapid changes in the economic situation on the mainland, the problem of labor and employment became very acute in 1989. The unemployment rate in cities and towns jumped to 3.6 percent, far exceeding the rate of 2 percent in 1988. When compared with the Chinese government's goal of "full employment" and society's past ability to support this burden, this new unemployment in cities and towns

is a major challenge. Analysis by experts indicates that, starting in 1991, the difficult employment situation in China will continue for a number of years. [passage omitted]

### **The World's Largest Labor Army**

In the short space of 40 years, China's labor and employment has achieved successes that have attracted world-wide attention, and China has built up the world's largest labor force.

According to incomplete statistics, at the end of 1990 there were 145 million employed personnel in China, some 9.4 times the number in 1949. Of this amount, new jobs were arranged for 70.8 million unemployed in the 10 years from 1979 to 1988 alone. For China, with its exploding population growth and undeveloped economy, this was clearly an extraordinary thing.

### **Unemployment Rate Jumps, Employment Picture Grim**

Yet China has still had a difficult time casting off the mysterious puzzle of unemployment. In 1989, China's employment problem emerged again:

Rural surplus labor capacity increased daily, and a tide of rural laborers—5 million strong—"flowed blindly" into the cities, putting great pressure on them.

The population born during China's third baby boom, in the late 1960's and early 1970's, is now entering working age and adding more than 20 million people to the work force each year.

Since the end of 1988, the scale of investment in China has been reduced to eliminate overheating of the economy, and the product structure has been adjusted. All of this has greatly reduced the demand for labor. In 1989 state-run enterprises could only use 2.25 million of the workers entering the labor force, a reduction of 50 percent compared to the previous year.

With the effects of the market slump, delayed debt repayments, and tightening of total output, the number of enterprise personnel who stopped work or were awaiting employment reached 6.68 million.

The economic development of city and town collectives was hampered. The number of individual industrial and commercial enterprises and privately managed enterprises that went out of business increased, reducing the number of employed by more than 300,000.

The number of township enterprises shrank, and their function of regulating labor and employment was weakened. In 1989 75,000 township enterprises in China went bankrupt or stopped production, affecting more than 1 million people.

Data indicate that in 1989 the total number of unemployed in cities and towns reached 5.4 million, while the unemployment rate topped the 2-percent level that it had held for 3 years, rising sharply to 3.6 percent.

In 1990, China's employment situation remained grim. According to statistics, towards the end of the year there were 3.71 million people unemployed in China, and at year's end the unemployment rate in cities and towns exceeded 4 percent.

China's Ministry of Labor forecasts that from 1991 to 1995, in pace with population growth, 30.6 million new workers will enter the workforce, and the unemployment rate in cities and towns will fluctuate at around 4 percent. The variety of signals described above indicates that China is facing its fourth unemployment crisis since the 1950's.

### **The Characteristics of the Fourth Unemployment Crisis**

In comparison with the past three unemployment crises experienced since the Chinese Communists came to power, particularly the one in the late 1970's and early 1980's, the crisis that started in 1989 and will effect the unemployment problem for a number of years to come is very different.

First, the economic climate was not the same. The great climate of peak unemployment in the late 1970's occurred when the Chinese Communists switched their focus from "class struggle" to building the economy; many new jobs became popular in society, and the employment situation was the best it had been since 1949. In this case, the employment crisis has emerged in a serious situation where China is cutting the scale of investment, adjusting its product structure, abandoning some construction projects, and greatly reducing social production's need for a workforce. In the short-term, it will be difficult to solve the employment crisis facing cities and towns.

The second difference is that the conditions for arranging employment are not same. The last time unemployment peaked, there was an expansion in the areas for employment, and state-run enterprises fully used their function as primary employment pipelines. The doors of the collective and the individual economy opened wide to admit unemployed personnel, and at that time the overall national business and employment situation and the latent power of the economy were better. Now state-run enterprises are generally saturated, the ranks of the underemployed are growing daily, and the enterprise utilization rate is down; this has aggravated the inadequate supply of employment. Township enterprises, which once absorbed large numbers of workers, are contracting. In 1990 the number of township enterprises in China declined by 400,000, cutting 2.5 million workers.

The third difference is that the success of rural reform has increased rural productive forces, thereby liberating large numbers of peasants from the land. However, a large quantity of rural surplus labor enters cities in an unplanned manner, taking up a certain number of the positions available and exceeding cities' economic and development capacity to arrange work. China's problem of a "blind flow" of rural labor became particularly

prominent in 1989, when a wave of rural "public laborers," numbering in the tens of thousands, swept into large cities such as Beijing, Shanghai, Guangzhou, and Tianjin. In Beijing, it was possible to see waves of humans at railway stations, public squares, multi-level crossing bridges, and on public buses. Their clothing was worn and shabby, their faces wore tired expressions, they carried bundles, and they roamed about aimlessly, putting serious pressure on the situation in Beijing. In 1990, 1 million "laborers" will move into open cities in south-east coastal areas, creating a shock wave that these areas will find difficult to endure.

### **No High Pay, No Low Employment**

The fourth difference is that China's young people today are conscious of employment as at no time in the past. During the last peak in unemployment, an extremely large number of people had been tempered by a hard life in the country, and were quite able to bear hardships and hard work. But today's young people scramble for comfortable, high-paying, and technical jobs. Job seekers look for "satisfying" positions, looking first at joint ventures or foreign-invested or independent enterprises. They have become indifferent to the concept of state-run enterprises, particularly to those jobs that are dirty, difficult, repetitious, tiring, or low-paid. Some of the unemployed would rather be idle, and they are unwilling to do "humble work." One well-known machine tool factory in Beijing wanted to recruit 100 workers with a high-school education, but only one-third as many signed up. Factories are forced to lower their standards, to the point of only requiring an applicant to be able to write his name and mailing address.

### **Will the Path to Employment Become More Difficult?**

Because of the tremendous changes in China's employment situation, some of the measures taken by the Chinese Communists in the early period of reform to solve the unemployment problem are not suited to present circumstances, and the path for solving the unemployment problem in the future will be quite difficult.

For quite some time, there have been three great pressures on China's employment situation: those awaiting employment in cities and towns, redundant personnel in enterprises, and surplus rural labor. Because China's economy was in an extensive high-speed growth period in the 1980's, and because it adopted a number of policies for officially arranging employment, the very tense employment problem was alleviated for a time. However, with the worsening economic situation at present, even if unemployment pressures suddenly increase, the contradictions in the work force supply will be very prominent. In order to seek a way out, the Chinese Communists have no choice but to seek an "effective prescription."

In the late 1970's and early 1980's, during China's third unemployment crisis, the Chinese Communists adopted

some new countermeasures. With regard to enterprises' redundant labor, it permitted staff to retire early and let sons and daughters take their places. Enterprises were allowed to solve the employment problem for the children of staff by setting up labor service companies that assumed sole responsibility for profits and losses. In terms of economic policies, the Chinese Communists also implemented unprecedented reforms: supporting and developing the private economy, and permitting individuals to chart their own course. This set of policies had a positive effect on employment pressures in this slack period. From 1978 to 1982, China was able to provide new jobs for 30.8 million people, providing more than 9 million of them in 1979 and 1980, and thereby greatly mitigated the employment contradictions.

However, this type of employment model, which has a strongly political character, is fraught with many opportunities for corruption. First, it reduces staff quality. Second, it strengthens the "iron rice bowl" system and intensifies people's mentality of relying on the government. Third, it compels the labor supply to increasingly exceed demand, and labor efficiency is greatly reduced. This false "full" employment sacrifices efficiency, and simply replaces overt unemployment with hidden unemployment, creating enterprise overstaffing. According to an analysis of relevant data, China's state-run enterprises now have more than 20 million redundant personnel, or one-fifth of their total staff. The man-hour utilization ratio of enterprises does not reach 50 percent; a considerable portion of state-run enterprises has a man-hour utilization ratio of around 30 percent. This is explained by the fact that a sizable portion of those who were unemployed several years ago has become "on-the-job unemployed," amounting to hidden unemployment. If the same old measures are still to be used, sparing no effort to reduce the unemployment rate, they will surely lead to the continued expansion of hidden unemployment.

### **More Than 100 Million Rural Idle Workers!**

In addition, for a long period the Chinese Communists implemented a "dual employment structure," which has also been one of the factors leading to the employment crisis in China. The so-called "dual employment structure" is aimed at implementing a completely different employment structure for cities and towns than in rural areas. It builds a "dike" between city and countryside, and strictly limits the movement of the rural population to non-agricultural and urban areas through the household registration system. This has forced a growing rural workforce to be squeezed onto a limited area of arable land to engage in agricultural production. The situation has always been one of employment falling short of its full level, with latent unemployment. According to the most recent statistics from the Ministry of Labor, at present China has 400 million rural workers, and according to per capita arable land and a calculation of current productive forces, 200 million people are sufficient for engaging in agriculture. Of the 200 million

surplus laborers, 90.3 million have already shifted to township enterprises in recent years, leaving some 125 million relatively idle. In addition, policies have changed often, going back and forth. For township enterprises, which have served as a huge market for absorbing the surplus rural workforce, this affects the employment of millions of surplus rural laborers.

#### **How Will China Extricate Itself From This Predicament?**

What sort of countermeasures should the Chinese Communists adopt when an employment peak approaches? In addition to developing the economy and controlling population growth, there are several other methods:

1. Adjust China's present city and town employment structure in order to expand the employment capacity. In the past 10 years of reform, China's city and town employment structure improved considerably, but the situation in which the newly increased city and town labor force is concentrated in state-run enterprises and official organs is still quite serious. Under present conditions, where state-run enterprises have enough people and the rate of industrial growth has been reduced, adjusting China's existing city and town employment structure is imperative. Looking at the ownership structure of employment, under the premise of strengthening economic and political macro-regulation measures, China should provide even greater space to various types of new economic development that are not state-run. It is now necessary to devote major efforts to developing the individual and private economies, in order to make them important conduits for attracting surplus city and town labor. In addition, China should attempt to devote great effort to developing Sino-foreign joint ventures and independent enterprises.

Looking at the production structure of employment, it is first necessary to progressively adjust and improve the principal flow of the newly growing labor force into the industrial sector. Second, businesses supported and emphasized by state industrial policies should be supplied with a high-quality workforce. Third, it is necessary to continue developing tertiary industries and increasing their employment capacity to more than 20 percent of the society's total employment.

2. Rational regulation of the rural labor force entering the cities to work. China should strengthen regulation of surplus rural labor moving blindly into cities and towns. It should deal with surplus rural labor according to the principles of "leaving the soil but not the village" and "entering the factory but not the city." It should suit measures to local conditions in developing forestry, animal husbandry, sideline, and fishery industries, and handle rural enterprises well, launching many types of services to absorb and shift labor.

3. Continue to foster and develop the services market, accelerating the flow of unemployed personnel towards expanding enterprises. This could both reduce the pressure on enterprises operating below capacity, making it

convenient for them to adjust their structures, and supplement the labor resources of expanding enterprises.

4. Establish and perfect the social security and training systems. At present, China should step up the establishment of a complete unemployment relief system, social health insurance, and a retirement fund system to eliminate workers' fear of unemployment and reduce the pressures and burdens placed on enterprises. Through pre-production training and transfers to training after unemployment, unemployment's shock on economic life and social stability can be reduced to a minimum.

Responsible persons in China's Ministry of Labor say that in the future China will tap new sources of employment, working hard in the Eighth Five-Year Plan (1991 to 1995) to keep unemployment below 3.5 percent. Whether the Chinese Communists can achieve this goal and make a smooth and steady transition from the fourth employment crisis will directly affect China's prosperous development. This is worthy of our further attention.

#### **Editorial Discusses Labor-Supporting Enterprises**

91CE0577B Beijing JINGJI RIBAO in Chinese  
1 May 91 p 1

[Editorial: "Relying on the Broad Masses of Staff and Workers To Operate Enterprises Successfully"]

[Text] Today is the 105th anniversary of "1 May," International Workers Day. On this festive day we extend our congratulations and cordial greetings to the millions and millions of workers fighting bravely on all the various fronts and posts.

The Chinese working class is magnificent. It has a brilliant past, and is master of the present and the future. In the past 10-odd years, it was due to the joint efforts of the broad masses of employees that we successfully accomplished the enormous task of reform and opening to the outside world, that the country's GNP doubled in advance of expectations, and that contributions of historical significance were made to the country's social stability and progress. We now face an even more formidable challenge—the fight to attain the second-step strategic objective. History will confirm again that China's working class has the willpower and strength to accomplish new achievements in realizing the second-step strategic objective.

The problem that presently concerns the broad masses of employees and the entire nation is the need to deepen enterprise reform and enhance enterprise vitality, especially in large- and medium-sized state enterprises. It requires adopting effective measures in many sectors and also firmly and effectively grasping this central link of further deepening reform of the economic structure. To continuously strengthen enterprise vitality, especially in large- and medium-sized state enterprises, it is undoubtedly extremely important to work to improve enterprises' external environment. For enterprises'

internal affairs, the most crucial and significant point is to utilize the political core of the party organization more fully, firmly maintain and perfect the plant manager responsibility system, and rely wholeheartedly on the working class. We must effectively handle the relationship between these three factors, and must be even more successful in handling enterprises' affairs.

The Communist Party of China is the core leadership of all China's nationalities in executing socialist modernization projects and in undertaking reform and opening up. Enterprises' party organizations are the political cores that lead employees in implementing the party's establishment of a fundamental socialist line with Chinese characteristics. Utilizing this political core accurately and fully will guarantee that reform and opening up, including the socialist direction of enterprise reform, can enhance enterprises' cohesiveness and centripetal forces, mobilize and rally the broad masses of employees, strengthen all work toward greater enterprise vitality—especially in large- and medium-sized state enterprises, and truly make all this become reality. We must realistically strengthen and improve the building of grassroots-level party organizations in enterprises. Strengthening requires improving, and improving serves to strengthen. Many enterprises are in the process of instituting socialist education, and are doing so effectively, arousing to the highest degree an ardent love for socialism, the state, the nation, and enterprises among the broad masses of workers. While achieving the second-step strategic objective, party organizations in enterprises are to be the political core for building the socialist material and spiritual civilizations, and they will assume an increasingly larger role in the struggle.

Firmly maintaining and perfecting the plant manager responsibility system is a demand of modern enterprise business management. China's socialist entrepreneurs are part of the working class. They, together with the working class, are under the leadership of the party in the common struggle to build socialism with Chinese characteristics. Efforts to increase the political core role of the party organization in enterprises are not at all contradictory to maintaining and perfecting the plant manager responsibility system; both these endeavors are mutually supplementary and complimentary. In the decision-making processes of enterprise management it is necessary to fully ensure the authority of plant directors and managers—such authority was bestowed on them by the "Enterprise Law"—so that they may fully assert their important roles. The reform of the economic structure, which we are now pursuing, is intended to eliminate shortcomings in the economic structure that arose under certain historical conditions in the past in order to initially construct a new system of a socialist planned commodity economy. According to the demands posed by the need to develop a socialist planned commodity economy, we must set up an economic operational mechanism that integrates the planned economy and market regulation. In reform, we must maintain the socialist direction and also try to

enhance enterprise vitality, and have enterprises become truly socialist commodity producers and traders with autonomous business operations and full responsibility for their own profits and losses. This requires enterprise decisions to be flexible and effective according to the principles of modern business management, and also requires that enterprises transact all normal business activities. In this respect, plant directors and managers must earnestly shoulder all their responsibilities.

We must also emphasize that in revitalizing the enterprises, especially large- and medium-sized state enterprises, we must rely wholeheartedly on the working class. Of equal importance is effectively handling the relationship between maintaining and perfecting the plant director responsibility system and relying on the broad masses of employees to operate enterprises successfully. We have often stated the need to direct attention to internal affairs and to tapping internal potential. In the end, enterprises' internal potential is the enthusiasm and creativity of the broad masses of employees; these are the fundamental sources of enterprise vitality. Practice has proven that enterprises that have fully utilized employee enthusiasm are the ones that have vitality and that will prosper and flourish. The development of any enterprise that performs poorly in this respect will meet with setbacks of various degrees.

Relying on the broad masses of employees to operate enterprises successfully is not advocating raising a big hue and cry, disregarding objective economic laws, staging "movements," or launching "rush jobs." The successful operation of modern enterprises requires that we first observe economic laws, and, second, enhance managerial consciousness. Strengthening managerial consciousness and relying on employees to operate enterprises successfully should not be considered contradictory concepts. Modern enterprises require strict scientific management, while the working class must show the utmost discipline and must clearly understand the importance a stable social environment and strict work discipline has on successful enterprise operations. The masses of employees are violently opposed to displays of formal, "haughty manners"; they wholeheartedly hope that their labor will shape effective and creative achievements. It is for this reason that entrepreneurs must actively create all the various favorable conditions on their own initiative. It is also for this reason that we must maintain and perfect the system of employees assemblies, utilize enterprise labor unions more fully, and stimulate the employees' enthusiasm for participating in management and decision-making. The leadership and the rank-and-file must be of one mind, and must impart to enterprises even greater vigor and vitality.

When relying on the broad masses of employees to operate enterprises successfully, we must attach importance to the role of science and technology and to the role of skilled professionals. On the one hand, intellectuals are an organic component of the working class. On the other hand, enterprise progress must rely on science and

technology and on continuous technological transformations. During a recent inspection tour in Sichuan, Comrade Jiang Zemin emphasized that all party members, especially leading cadres at various levels, must thoroughly understand the Marxist view, set forth by Comrade Deng Xiaoping, that science and technology are the first production forces. Whether China's science and technology can advance rapidly in the next decade will directly affect the realization of our second-step strategic objective. Enterprises must go the road of enhanced scientific management, reliance on scientific and technological progress, accelerated technological transformation, and heightened economic returns. This requires us to further foster the custom of respecting knowledge and talented persons. We must say that the cultural and scientific quality of employees has improved greatly. During the "double increase, double economy" and "rationalizing" activities, all employees gave remarkable expressions of their opinions. During the activities for the "year of quality, variety, and returns," they will again display their skills. As long as we show ourselves apt at linking specialized talents with innovations related to the masses, we will be able to continuously produce new creative achievements.

As May begins, spring's colors have already spread over the land north and south of the Chang Jiang. China's economic situation is just now developing in a very favorable direction. We are also further inspired by the target of our struggles. Let us invigorate the enterprises, especially large- and medium-sized state enterprises, and handle the relationship between successful reform and stability and development. Let us place our hope in the Chinese working class and in every comrade. The working class is the main force for reform and progress, and the cornerstone of social stability. Let the millions work with one heart and mind, and immerse themselves in the arduous work of making an even larger contribution to building socialism with Chinese characteristics.

## AGRICULTURE

### Jiangxi Farm Prices Forecasted

91CE0572A Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 3, 15 Mar 91 pp 17-22]

[Article by Li Linmao (2621 2651 5399) and Wu Mulin (0702 1970 2651): "An Exploration of Farm Price Plans for Jiangxi Province During the Eighth Five-Year Plan"]

#### [Text] I. Farm Prices in Jiangxi Today

The price reforms that began in 1979 started with the reform of farm prices. During the intervening more than 10 years, substantial changes have taken place in both the farm product price structure and the control system. This shows up mostly in the following ways:

First is marked improvement in the glaringly low farm product procurement prices. Comparison of the overall level of Jiangxi agricultural by-product procurement

prices in 1989 with 1978 showed a 220.9 percent rise. This included a 132.6 percent rise in the state fixed procurement price of paddy (early paddy), a 105.6 percent rise in the price of cotton, a 151.4 percent rise in the state fixed procurement price of oil-bearing crops (rape-seed), a 308.2 percent rise in the price of live hogs, a 63 percent rise in the prices of jute and ambari hemp, and a 250 percent rise in the price of sugar-bearing crops (sugarcane) (for 1990 as compared with 1965).

Second is the preliminary establishment of a new mechanism for setting prices of farm products. The former management system whereby the state alone uniformly set plan prices has given way to the co-existence of three different kinds of prices, namely state-set prices, state guidance prices, and market-regulated prices in a gradual move away from a unitary to a diversified way of setting prices. In 1989, 21.8 percent of total farm product procurement was at state-set prices; 25.5 percent was at state-guidance prices, and 52.7 percent was at market-regulated prices.

Third is a narrowing of price parities in the exchange of industrial and farm products. Statistics showed a 46.6 percent narrowing of the price parity between in exchange of industrial and farm products between 1978 and 1989. Price differences for quality, regional price differences, and seasonal price differences have also gradually widened.

Fourth is an improvement in the overly low prices of farm products, which advanced development of the agricultural economy. The province's gross output value from agriculture reached 11.685 billion yuan in 1989 in a 6.509 billion yuan, or 79.5 percent rise over 1978. Outputs of main farm products also increased tremendously, the gross output of grain increasing 41.2 percent between 1978 and 1989 for a 46.1 percent yield increase. Gross output of cash crops increased enormously, gross output of cotton increasing 43.8 percent.

Fifth is a marked increase in both peasant and national income powered by a combination of price rises and bumper harvests. In 1989 peasant income in the province reached 558.64 yuan per capita in a 73 yuan, or 7.65-fold increase over 1978. Government financial revenues also rose from 1.22 billion yuan in 1978 to 3.75 billion yuan in 1989 in a 3.07-fold increase. Naturally, the increase in government revenues was directly related to the expansion of production and flow in all economic sectors, including industry, business, and transportation, and to the increase in their returns. Nevertheless, bumper harvest lay a fine foundation for the development of all sectors of the national economy. They played both a direct and an indirect role in the increase in government revenues in the full expression of the powerhouse role of agriculture as the basic industry in the national economy.

Sixth is increasing peasant reliance on markets and a steady improvement of their understanding of a commodity economy concomitant with reform of the farm

product price control system. In 1989, the province's agricultural by-products commodity rate reached 61.14 percent as small scale production began to enter large markets. Not only did this have far-reaching effects on price reform, but also on reform of the entire economic system as well.

Nevertheless, because of the not fully developed markets, and the insufficient vigor of state macroeconomic regulation and control, great ups and downs in farm product prices occurred. Furthermore, prices of farm products under state control were overly low by comparison with other prices, internal price parities for farm products being seriously distorted. This showed up mostly in the following ways.

First was too great a price differential between the list price and the negotiated price of farm products in the two-track price system, and a relatively overly low plan price, which obstructed fulfillment of command plans, thereby hurting the relationship between the state and the peasants. The price differential between the list price and the negotiated price of 50 kilograms of paddy was 3.84 yuan in 1986, 3.91 yuan in 1987, 13.91 yuan in 1988, and 17.90 yuan in 1989.

Second was a gap in returns for farm products under state plan control and for which the state set prices versus farm products for which price restrictions had been removed. This resulted in a movement of capital, labor, and materials in the direction of farm products that produced high income, thereby hurting coordinated development of agricultural production. A look at the change in price levels showed that prices of farm products on which price restrictions had been removed rose much higher than for farm products on which the state set prices. Comparison of 1989 with 1978 showed a real average procurement price rise from 16.63 to 48.10 yuan per 50 kilograms of blood oranges for a 200 percent increase; a real increase from 56.09 to 197.96 yuan in the average procurement price per 50 kilograms of life hogs, in a 250 percent increase; and a severalfold rise as well in prices of fresh vegetables and Chinese medicinal herbs. Meanwhile, the increase in farm product prices under state control was very low, and benefits for peasants who produced these farm products were overly low by comparison.

Third was a serious grain and edible oil price inversion occasioning an increase in government subsidies. Since 1978, the grain (early paddy) procurement price more than doubled in the province, while the sale price remained unchanged, the difference being made up through government subsidies for an ever-increasing state financial burden. Total grain and edible oil subsidies in Jiangxi Province, including subsidies for the inversion between procurement and sale prices were greater than excess procurement added price subsidies and subsidies of enterprises' operating losses. In 1978, the grain and edible oil subsidy was 50,860,900 yuan, but increased to nearly 700 million yuan in 1989 in an

almost 13.7 percent increase. This included a government subsidy for the inversion between procurement and sale prices of grain and edible oil of 1.469 million yuan in 1978, increasing to 260 million yuan in 1989 in a 177-fold increase. In 1989, however, the province's revenue totaled 3.748 billion yuan, only 1.222 billion more than in 1978 in a 3.07-fold increase. Grain and oil subsidies as a percentage of the province's revenue increased from 4.2 percent in 1978 to 18.7 percent in 1989.

Fourth was insufficiently developed methods of controlling the three kinds of prices for farm products. State-controlled farm product prices could not keep up with changes in market supply and demand and the requirements of the loss of value. Furthermore, adjusting them was fairly difficult. A situation occurred in which state guidance prices provided "guidance that no one followed." They were not binding. However, owing to lack of vigorous macroeconomic regulation and control and the incompleteness of laws, market-regulated prices fluctuated intensely with overly vigorous or insufficient demand, thereby impairing the orderly and integrated development of agricultural production.

## **II. Goals, Guiding Thought, and Basic Principles of Farm Product Price Reforms**

### **A. Goal of Eighth Five-Year Plan Farm Product Price Reforms**

Farm product prices are to be made more rational during the Eighth Five-Year Plan. Market conditions permitting, opportunity should be taken to expand the scope of market regulation and reduce the kinds of farm products for which the state sets prices. In view of the problems encountered during the Seventh Five-Year Plan in controlling farm product prices, state-controlled farm product procurement prices will have to be increased in a planned, step-by-step way, particularly for grain, cotton, and edible oil, macroeconomic regulation and control capabilities improved, the irrational rise in farm product prices under market regulation restricted, and active efforts made to reduce differences in the two-track price system in the gradual rationalization of prices of principal farm product prices, particularly grain and edible oil procurement and market prices as a means of improving substantially the government's staggering financial burden.

### **B. Guiding Thought**

Orderly development of agriculture forms the foundation for economic stability, political stability, and social stability. During the Eighth Five-Year Plan, agriculture has to be given prominence, efforts made to fight a total war for the development of agriculture. Agriculture must be further mechanized; all economic work must carry out a policy of taking agriculture as the foundation, everybody supporting agriculture and tilting toward agriculture, particularly tilting toward grain production. The province's economic development plan program requires an average annual 4 percent increase in the



province's agricultural gross output value during the Eighth Five-Year Plan, grain output reaching 127.5 million tons, cotton output reaching 120,000 tons, and peasant net income reaching 850 yuan each year. Thus, further examination of the objective laws of farm product price movements will be necessary during this period to gain an understanding of objective standards for making farm product prices sensible for the further straightening out procurement and sale price and various other price differentials in the further reform, amplification, and perfection of the farm product price control system. The guiding thought for farm price work during this plan period is as follows: Resolute implementation of the policy of improving the economic environment and rectifying the economic order, and the deepening of reform; seeking a proper place in the process of fighting the total war for the development of agriculture and promoting the industrialization of agriculture; conscious application of the laws of value to the deepening of farm product price reforms, gradually straightening out priced ratios, ensuring steady increase in output of main farm products such as grain and cotton, and advancing the all-around development of the rural economy.

### C. Basic Principles

1. The formulation and readjustment of farm product prices must be done primarily on the basis of farm product production costs, and production and operating expenses, taking the market supply and demand situation into account as well. Farm product production and operating expenses are the main elements in planning farm product prices, and compensation of cost outlays is the basic requirement and the minimum economic boundary line in drawing up and readjusting product prices. Naturally, the costs used as a basis for drawing up and readjusting farm product prices must reflect the level of productivity of the majority of producers, and the per unit social cost or average cost in accordance with "Cost Code" requirements. In addition, the laws of value must also be consciously applied, and output and sales adjusted on the basis of the market supply and demand situation in order to derive the best economic returns.

2. Price ratios among farm products must be planned, making sure to use grain prices as the base point. Of prime importance is continued changes to grain prices, particularly when fixed procurement prices are overly low in order to bring grain prices up to a reasonable level. When formulating price ratios between grain and other products, a policy of positively no relaxation of grain production while actively developing economic diversification must be pursued. Attention must be given both to price ratio relationships created over a long period of time while also linking them to current agricultural production policies, the trend of development and cost changes, and the market supply and demand situation. To be avoided at all costs is simply following various irrational historical price ratios that came into being under abnormal economic conditions. In addition, price ratios must also be planned among interrelated crops in

the same area or in the same season, between the same raw materials and various kinds of processed products, and among interchangeable products.

3. The principle of linking the plan economy with market regulation should be followed in the correct handling of the relationship between control and flexibility. The prevailing price control system pattern must remain relatively stable. Readjustments within narrow limits should concentrate on perfecting state control over guidance prices to make guidance prices more binding. Where prices of principal agricultural by-products have already been relieved from controls, while building a unified market and rectifying market order, laws and regulations should be employed to regulate the national macroeconomy in order to prevent wild swings in these prices.

4. Gradual easing of the farm products procurement and sale price inversion. The inversion between procurement and sale prices of farm products, particularly the inversion between the procurement and sale prices of grain and edible oil, has steadily widened, with the result that national price subsidies have become greater and greater causing a very heavy financial burden. Future readjustment of farm product prices should look after the legal economic rights and interests of producers, dealers, and consumers alike while safeguarding the national interest. The ability of the state, enterprises, and consumers to bear economic burdens should be taken into full account, every effort made to integrate procurement and sale prices in order not to shape a new inversion or widen the existing inversion. Second, hidden subsidies should be changed to open subsidies, or alternatively the volume of parity price sales should be curbed in a gradual cutback in the variety of products for which an inversion exists and decrease in the spread of the inversion in order to reduce price subsidy pressures on the state so as to move forward step by step with the straightening out of procurement and sale prices.

5. Accelerating the development of agriculture and increasing peasant income must be primarily through increased production and a heightened labor productivity rate. Farm product prices are the base prices in the national economy. Changes in them are greatly limited by the development goal of stabilizing the macroeconomy, and they must also be in keeping with the level of economic development at a certain period. Although farm product plan prices are currently too low, in view of the present socioeconomic environment and the level of economic development, further large scale increase in the overall level of farm product prices is unrealistic. In addition, analysis of historical data shows that so long as market prices remain basically stable, the total farm product procurement price increasing around 3 percent, this helps the steady development of agricultural production. Therefore, for some time to come, improving the development of agriculture and increasing peasant income positively cannot derive solely from raises in prices of farm products. Instead, an effort must be made to increase steadily the agricultural labor productivity

rate. The emphasis of structural readjustment of farm product prices must be on varieties for which the state-set prices is too low so as to narrow gradually the difference between the state fixed contract procurement price and the negotiated price or market price, thereby gradually rationalizing price parities within agriculture.

### III. Planning the Price Level of Principal Farm Products

**A. Grain Procurement and Sale Prices.** Grain is of pivotal importance in development of the national economy. Both the grain procurement price and the grain sale price must be set with a few to ensuring that grain growing peasant maintain simple reproduction. These prices must also be consistent with the financial burden that the state and consumers can carry, and they must take into account the price ratio among various farm products.

1. Grain Procurement Prices. Changes in grain production costs in various years must be fully considered, the average annual incremental speed of increase used as the basis for the grain contract procurement price during the Eighth Five-Year Plan readjustment period. Estimates show an average 15.2 percent annual increase in production costs per 50 kilograms of early paddy from 1984 through 1989. Were prices readjusted to a corresponding degree, the fixed contract procurement price of 50 kilograms of early paddy in the late years of the Eighth Five-Year Plan would be approximately 40 yuan. Analysis of data for the past five years shows a fairly stable coefficient relationship between grain cost and retail cost indices, meaning that for each 1 percentage point rise in the price index, grain costs rose about 1.15 percentage points. If the average rise in the price index during the "56" period [as published] can be held at around 7 percent, at a 15 percent coefficient, grain costs during the Eighth Five-Year Plan will rise an average 8 percent. Therefore, the state fixed procurement price of grain (paddy) during the Eighth 5-Year Plan should be figured at an 8 percent annual rate of increase. In order to stimulate late crop paddy production to make the grain consumption structure more rational, the price differential between early and late crop paddy should be correspondingly widened as well during the Eighth Five-Year Plan, the variety differential set at no less than 10 percent.

2. Grain Market Price. From the standpoint of the general goal of price reform and the state's burden, grain prices should be suitably readjusted during the Eighth Five-Year Plan. The immobility of grain prices for a long period of time has not only increased the government's burden, hindered rational planning of grain procurement prices, and meant less saving of grain than otherwise, it has also widened the procurement and sale price differential, making readjustment increasingly difficult. However, whether it will be possible to straighten out grain procurement and sale prices during the Eighth Five-Year Plan will depend on circumstances in many regards. Generally speaking, it will be necessary to proceed in an orderly fashion toward gradual solution of the problem

in order not to cause large market fluctuations. Specifically, it will be necessary to hold down sales of grain to industries. Except for the grain rations provided residents and grain used by institutions, grain will be provided to all others at negotiated prices. The money saved from reduced sales of grain at a price lower than the purchase price can be used to increase grain procurement prices. Second, beginning in 1991, a system of "paying a portion of old bills, and not paying new bills" is to be adopted in order to increase the uniform sale price of grain. From 1992 through 1994, the portion obtained from increasing the procurement price is to be included in the sale price of the grain, and if conditions warrant, efforts should be made to make the procurement and sale price of grain the same in the final year of the Eighth Five-Year Plan. If this goal can be realized, then from 1991 on the state will no longer increase subsidies resulting from the inversion between grain procurement and sale prices.

**B. Other Cash Crop Prices.** Grain plan prices should be the basis, and historical price ratios, the benefit to cost ratio, and the supply and market demand situation should be taken into account along with relevant changes in the farm product labor productivity rate to set rational prices of all farm products.

1. Cotton prices. The cotton to grain price ratio throughout the province in 1978 was 1:12.1. From 1950 through 1989, a 1:12.2 cotton to grain average price ratio remained virtually unchanged. In 1989, the cotton to grain price ratio was 1:13.8, up 14 percent from 1978. During this same period, cotton output increased 116.11 percent while grain output increased only 55.6 percent. Cotton output increased 2.09 times as fast as grain output. If all other factors remain constant, this shows that the current cotton to grain price ratio should be lowered on the basis of the 1989 cotton to grain price ratio. Looked at in terms of the cost-benefit factor, cotton costs rose 52.6 percent between 1978 and 1989, grain growing costs increasing 134.5 percent. The increase in the cost of growing grain was more than double the increase in the cost of growing cotton. During the same period, the benefit from growing cotton increased 139.21 yuan, and the benefit from growing grain increased 131.40 yuan, the increase in the benefit from growing cotton being somewhat higher than the increase in the benefit from growing grain over the 12 year period. Taking the three elements of output, cost, and benefit into overall consideration, the price ratio between cotton and grain should be no lower than the 1:12.1 of 1978. In terms of cotton production and the long-term trend of development of the market, the price ratio between cotton and grain should be maintained at 1:11.5.

Beginning with the marketing of new cotton in 1990, the procurement price of cotton was increased to 300 yuan per 50 kilograms, the price ratio between cotton and grain reaching 1:13.57, which was somewhat high. This was done largely in view of the overly large current

shortage of cotton. In order to attain the goal of self-sufficiency in cotton for the province, the procurement price of cotton should not be lowered. If the cotton procurement price at the end of the Eighth Five-Year Plan exceeds 300 yuan per 50 kilograms when the price ratio between cotton and grain is 1:11.5, a cotton price will have to be planned at a 1:11.5 price ratio.

2. Oil-bearing Crop (rapeseed) Price. The 1978 price ratio between edible oil and grain throughout the province was 1:2.9, a ratio equal to the price ratio between edible oil and grain for the 30 year period 1959 to 1989. In 1989, the price ratio between edible oil and grain was 1:2.4, down 17.2 percent from 1978. Examination of production shows a 55.6 percent per mu increase in grain yields during the period 1978 to 1989, and a 200 percent increase in rapeseed yields. The increase in rapeseed output was 3.6 times greater than the increase in grain output. Examination of the cost-benefit ratio shows an increase in rape growing costs 2.4 times the increase in grain growing costs. Since benefits from the two cannot be compared, examination of just the two elements of output and costs shows the increase in the labor productivity rate for rape was slightly higher than the labor productivity rate for grain. This means that the edible oil to grain price ratio in 1989 should have been somewhat lower than in 1979. Therefore, the 1:2.4 price ratio between edible oil and grain in 1989 was basically fair. As a result of the very great rise in prices of oil-bearing crops in 1990, the price ratio between edible oil and grain was 1:3.2. Although this seems somewhat high, it results largely from a shortage of supply in oil and fat markets. In order to protect peasant interest in production, the 1991 and 1993 procurement price for fats, oils, and oil-bearing crops remained at the 1990 level. If conditions warrant during the last two years of the Eighth Five-Year Plan, consideration should be given to the removal of all procurement price restrictions on oils, fats, and oil-bearing crops, resorting to market regulation alone.

3. Ambari Hemp Prices. The price ratio between ambari hemp and grain was 1:4.8 for 30 years from 1959 - 1989. In 1978, the ambari hemp-grain price ratio was still at this level. In 1989, the ambari hemp-grain price ratio was 1:3.4, and in 1990 it was 1:3.8. Comparison of output in 1989 with 1978 shows a grain output increase much higher than the ambari hemp output increase. On the basis of this factor, the ambari hemp-grain price ratio should have risen. A look at the cost-benefit ratio shows an increase in grain costs far higher than the increase in ambari hemp costs, and an increase in benefits that lagged farm behind the increase in benefits from ambari hemp. This fact shows that the ambari hemp-grain price ratio should have declined. When the three factors are considered overall, the ambari hemp-grain price ratio should have fallen from the 1978 level, yet in planning it should be slightly higher than the 1990 price ratio level. The current market supply and demand situation for jute and ambari hemp shows a continuing very large

shortage; therefore, the price of ambari hemp during the Eighth 5-Year Plan should be set a 1:4 jute to grain price ratio.

4. Sugarcane Prices. The price ratio history shows a price ratio between sugarcane and grain of 1:0.2 for the 25 year period 1965-1989, including a 1:0.2 ratio in 1978 and a 1:0.25 ratio in 1989. Comparison of 1989 with 1978 output shows the increase in grain output was higher than the increase in sugarcane output; thus the sugarcane to grain ratio should have risen. However, examination of the cost to benefit ratio for the same period shows an increase in grain production costs that was faster than the increase in sugarcane production costs, while the increase in benefits from growing grain were far lower than the increase in benefits from growing sugarcane. This showed that the sugarcane to grain price ratio should have fallen. Taking output, costs, and benefits as a whole, the sugarcane-grain price ratio during the Eighth Five-Year Plan should not be more than the 1:0.21 of 1978. However, on the basis of state uniform planning, during the 1990-1991 cane crushing season the state fixed price for sugarcane is not to exceed 140 yuan per ton. The sugarcane to grain price ratio now stands at 1:0.317, which is clearly somewhat high. This level will continued to be maintained during the Eighth Five-Year Plan.

5. Live Hog Prices. The nub of the hog price problem is grain prices. Live hog prices have to change as grain prices change. During the Eighth Five-Year Plan, the negotiated procurement price of grain must be used as a basis, a 1:5 or 1:5.5 hog to grain price ratio set as a hog procurement guidance price to steady the development of hog production.

#### IV. Farm Product Price Controls.

Farm products have some remarkable features in China's socialist planned commodity economy, principal of which are the following: First is that the decentralized nature of production and the relatively centralized nature of procurement require diligent safeguarding of the peasant producers' interests. Second, the fluctuations in production of farm products and the relative stability of demand for them require prevention of great ups and downs in production resulting from great rises and falls in prices. Thus, during the Eighth Five-Year Plan, the existing pattern of multi-level control and various prices must be largely protected, the better to make the most of respective strengths.

First, more investigation and research must be done to control state-set farm produce prices. On the basis of changes in the cost-benefit ratio for these products and the market supply and demand situation, timely and suitable readjustments should be initiated in a planned way in an effort to change gradually the longstanding overly low prices paid for these products.

Second is perfection and restructuring of state guidance prices, studying the principles, requirements, and supervisory and inspection methods need in drawing up and

instituting state guidance prices to make greatest use of the advantages of planning and flexibility that state guidance prices provide.

Third is differential control of farm products on which price restrictions have already been removed. Most products on which price restrictions have been removed should be truly set free and enlivened. In cases where a sharp contradiction exists between supply and demand causing too great a rise in prices, control measures must also be taken, a ceiling price or a floor price set for some products, differential rates applied to others, and a system of price hikes reported to higher authorities instituted for others.

Fourth is better rural price control. This includes sound township and town price control agencies that exercise price controls, check on prices, and perform price service functions. Party and state price plans and policies are to be enforced in rural villages for resolute prevention of violations of discipline such as wild price rises, arbitrary fee collections, arbitrary levying of assessments, and arbitrary raising of funds, as well as upgrading of farm products in order to jack up sale prices or downgrading of products in order to lower procurement prices.

Fifth is providing good price information service. The province's agriculture is now in an important period of development. The curtain has been raised on an all-out war for the development of agriculture. New circumstances, new problems, new experiences, and new skills appear in an endless stream, and contrasts in market supply and demand changes are also very great. In view of this situation of myriad changes taking place in the twinkling of an eye, an optimized multi-level, multi-form service system in which higher and lower levels are linked and in which state service units are the main reliance while other service forces play a supplementary role must be set up in rural villages. This system is for the purpose of moving agriculture in the direction of greater intensity, greater specialization, and greater commercialization. Price units must extend price information services into the far-flung villages. Peasants have to be able to understand and act promptly on state rural price policies and regulations, and understand and act on the agricultural means of production supply situation and price levels, as well as agricultural by-product market quotations, thereby guiding development of the country's single family, single household agricultural production in a direction that is consistent with the strategic goals of national economic development. In addition, it is also necessary to feed back to government departments concerned peasant opinions about state price plans and policy regulations, as well as the price levels of specific farm products to help government departments that formulate policies improve their work, policy measures becoming more realistic thereby.

#### V. Principal Coordination Measures

Farm product prices are the basic prices in the price system. The planning of farm product prices has many

ramifications and also has many limited factors; thus, overall coordination is needed.

**A. Need for Vigorous Development of the Production of Agricultural Means of Production To Keep Sale Prices of the Agricultural Means of Production Basically Stable.** Analysis of historical data shows that the annual agricultural means of production sale price index should be lower than the overall agricultural by-products procurement price index, so that the peasants can largely realize increased output and increased earnings so long as no natural disasters occur. There should be no reduction in the supply of chemical fertilizer and materials used in agriculture whose sale is linked to state contract procurement of farm products, nor should there be a rise in their prices. At the same time, state rural tax policies, distribution policies, industrial policy, etc., should be rigorously implemented to create a fine external environment for the development of agricultural production.

**B. Building of a Farm Products Reserve Regulation Fund System.** Inasmuch as it is impossible to avoid periods of surfeit and shortage in the supply of farm products, during times when some fairly important farm products cannot be sold at a particular time or place, a farm products reserve regulation fund may be used to purchase and store them. This can both avoid "cheap prices that hurt the peasants," thereby protecting peasant interest in production, and it can modulate the removal of products from and the supply of products to the market to balance supply and demand and even out market prices. In addition, the methods found effective in recent years of using industry to assist agriculture, using sideline occupations to assist agriculture, and using trade to assist agriculture should be further perfected to play an active role.

**C. Rectification and Widening of Farm Product Flow Channels.** This entails perfecting the farm product market system to make the most of the role of state-owned business and main channels, using pilot projects, the promotion of production and marketing partnerships, link up between producing areas and marketing areas, and link ups between production and sales.

#### Heilongjiang Sugar Stock, Shipments

91P30156H Harbin HEILONGJIANG RIBAO  
in Chinese 22 May 91 p 1

[Summary] Heilongjiang sugar reserves exceed 400,000 tons. Heilongjiang will ship 100,000 tons of sugar to Shanghai, Hebei, Henan, and other purchasing areas.

#### Heilongjiang Sets Record in Sugar Production

SK0507085691 Harbin HEILONGJIANG RIBAO  
in Chinese 31 May 91 p 1

[By reporter Fan Xinzhong (5400 2956 4554): "Our Province Set a Record in Sugar Production"]

[Summary] During the 1990-1991 sugar producing period, the province processed 6.51 million tons of beets, and produced 780,000 tons of sugar, setting a record in both.

Last year, the province reaped a bumper harvest in sugar, and the total output of beets reached 6.51 million tons, a record high. This year, the acreage actually sown with beets in the province has reached 7.1 million mu, 1.1 million mu more than that last year. If there are no serious natural calamities, beet output will reach 7.4 million to 7.7 million tons.

### Heilongjiang Issues Notice on Meat Imports

91P30156G Harbin HEILONGJIANG RIBAO in Chinese 31 May 91 p 1

[Summary] Recently the Heilongjiang provincial government issued a notice stating that Harbin, Qiqihar, and Daqing Cities must purchase meat produced in Heilongjiang and may not ship in pork from other provinces.

### Hebei Rural Savings

91P30156I Shijiazhuang HEBEI RIBAO in Chinese 4 Jun 91 p 1

[Summary] As of 10 May, rural saving deposits in Hebei Province totaled 10,013,980,000 yuan.

### Sale Prices in Zhengzhou Wholesale Grain Market

91P30156F Beijing JINGJI CANKAO BAO in Chinese 4 Jun 91 p 2

[Text]

End of May	unit: yuan/kilogram	
Item	Grade	Price
White wheat	third	0.870
Corn	second	0.554
Soybeans	third	1.250
Wheat bran		0.438
Crude flour		0.480
Unshelled peanuts	third	1.435
Shelled peanuts	third	2.460

### Hebei Piglet Prices

91P30156J Shijiazhuang HEBEI RIBAO in Chinese 5 Jun 91 p 2

[Summary] According to a survey of seven counties and cities in Hebei Province, from January to April the price per piglet increased from 41.547 yuan during the same period in 1990 to 78.800 yuan. Reasons for the increased prices are: one, demand for piglets has increased and the

number of sows has decreased. Second, because profits from hog breeding have increased, farmers want to purchase piglets.

### Import of Cereals, Oils in May

HK2806134291 Beijing CEI Database in English 28 Jun 91

[Text] Beijing (CEI)—Following is a list showing China's import volume of cereals and oils in May 1991, released by the General Administration of Customs:

Item	Unit	May 1991	May 1990
Cereals	ton	1,001,503	1,715,940
Wheat	ton	895,897	1,579,598
Soybean	ton	53	69
Sugar	ton	195,691	239,648
Animal oils and fats	ton	9,692	3,966
Edible oil	ton	28,789	88,018
Other oils	ton	86,149	69,316

### Progress of Wheat Storage in Shandong

SK0107132791 Jinan Shandong People's Radio Network in Mandarin 2200 GMT 29 Jun 91

[Summary] As of 27 June, Shandong Province stored 1,177,200 tons of wheat purchased on contracts, accounting for 48.9 percent of the plan, or 805,300 tons more than that during the same 1990 period.

### Farming Machinery Recovers From Poor Market Conditions

OW3006134491 Beijing XINHUA in English 1110 GMT 30 Jun 91

[Text] Beijing, June 30 (XINHUA)—China's farming machinery market has recovered from the sluggish market conditions that hampered the industry for a decade.

In the first four months of this year, the sales volume of farming machinery products was valued at 6.89 billion yuan, a 38 percent increase over the corresponding period last year.

According to the State Statistics Bureau, 1,735 sets of large-sized combined harvesters, 55,000 motorized tri-cycles, and 15,000 farming automobiles were sold during the period, representing increases of 170, 140 and 120 percent respectively, compared to the same period last year.

In addition, other farming machinery products, including 18,000 large and medium-sized tractors, 210,000 small-sized four-stroke tractors and 20,000 motor threshers have been sold. The sales volumes of

these products have increased by 73.8, 66.4 and 62 percent, respectively, over the corresponding period last year.

It is estimated that farming machinery product sales will continue to rise in the second half of this year.

### Shaanxi Harvest

OW0207080691 Beijing XINHUA in English  
0643 GMT 2 Jul 91

[Text] Northwest China's Shaanxi Province's grain and rapeseed harvests this summer are expected to respectively reach 5.1 billion kg and 195 million kg, corresponding increases of 3 and 2.3 percent over last year's figures.

### Customs Administration Releases May Export Figures

HK0407124791 Beijing CEI Database in English  
3 Jul 91

[Text] Beijing (CEI)—Following is a list showing China's export volume of cereals, oils, food and produce in May 1991, released by the General Administration of Customs:

ITEM	UNIT	MAY 1991	MAY 1990
honey	ton	4,207	9,041
tea	ton	16,175	13,208
tobacco	ton	2,396	2,970
cotton	ton	23,446	17,069
cotton yarn	ton	20,158	15,560
pig	head	250,710	238,345
poultry	in 10,000	304	414
beef	ton	10,875	6,730
pork	ton	12,011	11,140
chicken	ton	2,777	3,477
rabbit	ton	458	1,231
egg	in 1,000	53,969	68,585
aquatic products	ton	29,361	26,292
fish	ton	4,309	3,612
prawn	ton	2,648	2,582
cereals	ton	1,014,373	471,778
rice	ton	59,587	26,582
soybean	ton	101,723	90,267
pulses	ton	54,334	52,837
maize	ton	727,811	272,139
vegetables	ton	74,740	66,532
fruit	ton	3,685	1,769
orange	ton	415	547
apple	ton	120	45

ITEM	UNIT	MAY 1991	MAY 1990
sugar	ton	27,853	69,699
canned food	ton	59,465	110,481
pork	ton	8,147	12,573
vegetables	ton	32,249	29,417
fruit	ton	7,208	59,205
others	ton	11,861	9,286
vegetable oil	ton	7,692	24,898
peanut	ton	51,488	36,761

### Bank Provides Huge Loans to Fishery Industry

OW0707075091 Beijing XINHUA in English  
0720 GMT 7 Jul 91

[Text] Beijing, July 7 (XINHUA)—The Agricultural Bank of China has issued huge loans to support the country's fishery industry.

According to sources at the bank, the amount of loans supplied by the bank to the industry amounted to 20.1 billion yuan (about 3.9 billion U.S. dollars) in the Seventh Five-Year Plan period (1986-1990), six times the figure for the Sixth Five-Year Plan period (1981-1985).

The country's fishery industry has developed rapidly over the past five years, and the per capita aquatic products consumption has reached 10.9 kg compared with five kg in 1985.

The bank will continue to provide long and intermediate-term loans to the fishery industry, mainly to state and collective-owned firms, in the current Eighth Five-Year Plan period (1991-1995).

### Ministry of Commerce Completes Grain Storage Tests

OW1007080991 Beijing XINHUA in English  
0216 GMT 10 Jul 91

[Text] Beijing, July 10 (XINHUA)—China has completed its first systematic investigative test on grain storage losses, "CHINA COMMERCIAL NEWS" reported today.

To control the loss of stored grain, the Ministry of Commerce decided to conduct a study in line with the demands of the food and agriculture organization of the United Nations and China's actual conditions.

It set up a cooperation group consisting of more than 100 members and collected more than 500,000 basic data in a survey on the losses of various kinds of grains, grains in different kinds of storehouses in different areas, and grains stored at different layers and parts of a storehouse.

The investigation on the storage of 750,000 kilograms of wheat, 400,000 kilograms of maize and 600,000 kilograms of rice in four provinces and a city by special means shows that stored-grain losses were lower than the state's target. However, the losses in conventional storage facilities were higher than state standards.

### Party Secretary's Role in Leading Group Meetings

91CM0378C Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 3, 5 Mar 91 pp 24-25

[Article by Zhong Zhuyan (6988 4554 1484): "How Does the Secretary Organize Leading Group Meetings?"]

[Text] Holding leading group meetings properly and raising their quality is one of the major measures in the program for strict party management, enhancing the building of leading groups' ideological style, and raising the party organization's fighting ability. The secretary has the important responsibility of properly organizing the group's democratic meetings and guaranteeing the meetings' quality. How does the secretary organize it well? He must firmly grasp the following:

1. Clearly define the guiding ideology, convene democratic meetings, unify group members, increase unity, and improve work. To do this, when chairing the meetings, the secretary must pay attention to leading everybody in realistically examining and resolving major problems that begin within the group itself. He must not let meetings become situation-analysis meetings. He must stress understanding and achieve a new unity based on criticism and self-criticism. Meetings cannot be to "let off steam." A single session should focus on solving one or two issues, and not become a "catch-all" meeting. Only in this way can democratic meetings adhere closely to the main topic, focus on the key points, and achieve bountiful results.

2. Be fully prepared before meetings. First, do a thorough investigation and solicit opinions. To take proper aim on the problem, before every meeting the secretary must try to solicit opinions on the main topic, and make timely reports to the meeting so that it has a solid base with the masses. Second, the secretary and his deputy must exchange views, so that each important issue has an initial consensus. Third, he should issue an announcement "to calm people," preparing the main topic and informing everyone of it in advance. Fourth, the secretary should ensure the exchange of individual viewpoints. Should there be any misunderstandings, he should pay attention to them and start working to resolve them before the meetings.

3. Organize learning. Learning theory and military ideology is the foundation for good democratic meetings and the correct development of criticism and self-criticism. When meetings begin, the secretary must pay attention to organizing everyone in choosing relevant works and documents. The secretary must learn before others do. He must learn well and deeply, pointing out at an appropriate time the benefit of learning, and using the results of his own studies to motivate integrated thinking and problem solving by others. Some feel that problems cannot be resolved in one meeting. If this is so, then a special learning session on the topic can be organized later, using the meeting's proceedings as a learning lesson, and raising the process of recognition and integrated thought.

4. Create good guidance statements. Discuss the direct relationship between the nature of the statements and a meeting's results. The following are several situations that require the secretary's guidance: When discussions veer away from the topic, the secretary must remind the group in a timely way to stick to the subject, and should redefine the topic if necessary. When there is awkward silence, he should refrain from being impatient. He should not exceed his functional role, meddle, or be too quick to speak, but should propose some fundamental details for consideration and open up an active discussion. When the group is sidetracked by other issues or argues incessantly, he should guide members in getting a firm grasp on the topic and statements under consideration. When words become extreme and emotions run high, the secretary should remind everyone to cool down; he may even choose to suspend the proceedings when necessary, and wait for a further exchange of views before reconvening.

5. Take the lead in developing criticism and self-criticism. Whether or not democratic meetings can seriously engage in criticism and self-criticism depends to a large degree upon the example set by the secretary and his deputy. First, the secretary must be sincerely receptive to accepting criticism, reveal his personal attitude before speaking, and welcome others' opinions of him. When the accuracy of the criticism diverges, or even when it is regarded as extreme, he should listen to it calmly, and not be quick to explain or cut others off from speaking. The secretary must take the lead in holding nothing back and revealing all, frankly searching out his own problems, and he must discuss everything without embellishment. Second, he must be bold and develop criticism properly. With regard to others' problems, he must neither lash out nor "gossip" behind their backs. Third, he should sum up briefly the issues proposed, and propose specific requirements for subsequent issues needing attention.

6. After meetings, he must take practical measures for reform and improvement. First, he must continue working on a good flow of ideas, especially for those who have suggestions for the secretary himself, and must find time afterwards to discuss them more intimately. For comrades receiving the most criticism, he must work to discard their "baggage" at the right time and guard against the appearance of new contradictions. Second, he must respond to opinions and suggestions raised at meetings for which the masses require a response. He should take sequential steps to handle those that can be handled right away, and make plans for those that cannot be solved right away, or else report them to higher levels. Third, he must take the lead in working on "changing," and let meeting members and the masses see the results of their criticism. If one does not change oneself after others have mentioned a matter once or twice, then no one will want to bring the matter up again.



### Public Opinion on Corruption in Daily Life

91CM0378A Beijing ZHIBU SHENGHUO [PARTY  
BRANCH LIFE] in Chinese No 3, 5 Mar 91 p 31

[Article by Wang Xinwei (3769 2450 0251): "This Reporter Discusses 'Contrasts'"]

[Text] According to the manager of a Beijing bakery, the New Year's festival period was undoubtedly the "end of the year." The beautiful pastries painstakingly made by workers were inevitably carted away for free by people. Who carted them away? None other than those who could "create trouble" for the bakery. During the Mid-Autumn Festival of 1988, they carted away 5,000 jin of mooncakes!

In the latter half of last year, a patient entered a hospital. As the doctor-in-charge made his rounds, his usually kind and smiling demeanor abruptly turned frosty when he stopped by the patient's bed. Seeing the sick person's bewilderment, friends let the secret out. Every visitor was supposed to give the "holy and pure angel-in-white" several hundred yuan. The patient immediately understood; after several hundred of his yuan entered the "angel's" wallet, the "angel" at last smiled at him also. One might say that a smile is worth a thousand pieces of gold.

When three officials in a certain company had telephones installed, they had three different types of experiences. An astute young manager pulled strings with someone he knew, going through the "back door," and in less than two months his telephone came "ringing" through. A secretary found a "Buddha," and after "burning incense" in the form of 19 cartons of imported cigarettes, the "Buddha" showed his magical powers and the telephone came through. An old secretary, stubborn to the last, pulled no strings and worshipped no "Buddha," and waited anxiously for a telephone for a full two years.

A recent survey of citizens in the Chongwen district asked, "What units have the most serious problems with improper conduct?" The results showed that hospitals were the champions, housing authorities were the first runners-up, and workers and merchants came next. Telephone and public security offices also took honorable mention.

Not long ago, this reporter followed comrades from the city's Office of Clean Government as they visited these types of agencies, and listened to how they proceeded to correct improper conduct. Unexpectedly, there was a clear "contrast" between the conclusions of responsible comrades there and what the masses had reported!

The first expression of this was that the responsible comrades felt that the improper conduct in their own areas was not serious, that the "vast majority" of individuals were clean, the mainstream was clean, and that

those who were improper were just "certain individuals." Their meaning was, it was unavoidable, so why fuss?

After hearing this kind of analysis, a specially invited inspector from a democratic faction made a skeptical query: If there was only a small number of improper people, how small was the number? Only 1 or 2 percent would be a small number, and even 10 or 20 percent would not be a large number. However, could 10 to 20 percent actually be considered small? Furthermore, a bad thing has far-reaching consequences, and its evil consequences cannot be measured in numbers.

It would not be very scientific to simply describe improper conduct in terms of how many or how few people engaged in it. One agency which the masses had referred to most emphatically had 4,500 employees, the vast majority of whom did nothing improper. Putting it a different way, perhaps there were no environmental conditions conducive to improper conduct. The real offenders were among the 100 to 200 who had direct contact with the masses. But the few who were improper became the majority among these 100 to 200 people, and the masses concluded that this agency was "too shady"!

Therefore, specific problems require specific analysis. Effort must be spent studying key parts and personnel in agencies. Only then can we deal firmly with improper conduct and achieve maximum results with minimum effort. If one approaches the question complacently, because those engaged in improper conduct are not in the majority, then one would not be resolute enough to stop the conduct, and one could not feel the sharp pain felt by the masses.

The second expression of this was that some responsible officials felt that one must go after the "big fish" to correct such improper conduct, and that the "small fry" did not do much harm. It did not matter if they were arrested, as they might not get caught anyway.

Certainly one must arrest the "big fish." The bigger the fish, the greater the harm, and the greater impact when caught. But "big fish" come from "small fry." Did not some of the big fish get started by smoking free cigarettes, drinking a few bottles of fine wine, and gradually growing fat? The small fry cannot be left to grow bigger.

Actually, small fry do not have a small impact. Some relied on their small size to slip around the law. They dared to extort and rob the masses, who resent them no less than they do the big fish. The small fry should not be immune because of their small size. The masses would not pity them because they are small, nor agree with us for not arresting them—how can the "contrast" be any greater? Standing in the place of those who were extorted and robbed, one can feel deeply that the small fry must be caught.

The third expression of this contrast was that some people adopted the practice of relying on luck to catch offenders. They say that information boxes have been set

up, telephone numbers for informants to use have been published, and public forums have been held. No one has reported any problems with gratuitous meals, requisitions, or things being carried off. Anyone who says there are problems can go track them down.

At the end of last year, one agency head bragged that they had had no problems. Who could have known that a few days later one of the staff would be arrested for taking a bribe worth several tens of thousands of yuan.

One cannot depend on such waiting to correct improper conduct, but must take the initiative to attack. One must seriously think about why the masses have such an intense reaction to improper conduct and yet are timid about exposing it. Where is the source of the disease? Also, what must be done in order to rely on the masses, discover the problem quickly, and close the loop in a timely fashion?

The fourth expression of this contrast that some comrades do not share the same intense hatred of improper conduct that the masses have. Instead of carrying out a "tearful beheading," they soothe with smiles. Since the offender faces no reproval, his conduct becomes more flagrantly improper. A doctor in one hospital presented a patient's family with a detailed list of requests that included baked chicken, roast duck, etc. After his behavior was exposed, he merely returned the items or paid compensation. One must ask what kind of deterrence this is? Recently a telephone office in Beijing took serious action. All those who had received gratuitous meals or gifts worth less than 50 yuan were given criticisms that were disseminated throughout the office, denied one seasonal bonus, and required to pay everything back. Those receiving meals or gifts worth over 1,000 yuan were dismissed.

The fundamental issue of resolving the "contrast" in viewpoints is that improper conduct must be considered from the position of the masses.

### **Relationship Between Party Branches, Cooperatives**

*91CM0378B Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 3, 5 Mar 91 p 35*

[Article by Wang Ruihua (3769 3843 5478), of the Beijing Municipal Committee's Agricultural and Industrial Administration: "What is the Relationship Between the Party Branch and the Cooperative?"]

[Text] Economic cooperatives have been established in over 90 percent of Beijing's suburbs. What kind of relationship should the village party branch have with them?

One must make clear that the party branch occupies the core leadership position in a village-level organization. Cooperatives must, of course, accept the party branch's leadership and not have unilateral, autonomous authority or ignore the party branch's decisions and

work assignments. The party branch must guide cooperatives in implementing party policy; enhance the nurturing, education, and management of cooperatives' cadres; firm up the masses' consciousness through socialist ideological education; and receive regular reports on cooperatives' work. Major issues concerning cooperatives must first be discussed within the party, which must help cooperatives carry out the correct policy. This way, the party branch can best exercise its function as a core leader and be a fighting bulwark for the party.

In addition, one must point out that in leading cooperatives, the party branch does not mean to do cooperatives' work. The existence and development of cooperatives is determined by their own qualities and characteristics. The cooperative is a cooperating economic organization formed by the collective laboring masses. Its basic principles are democratic control, self-managed operations with independent accounting, and being responsible for its own profits or losses. That is, a cooperative is relatively independent in such work functions as production management, control coordination, cooperative services, resource development, and capital accumulation. Cooperatives cannot exercise these functions without support and help from the party branch.

The party branch must first earnestly study cooperatives' work, particularly those issues that are important in economic development. It must offer suggestions and devise ways to help cooperatives solve difficulties. Second, it must have confidence in and support the cooperatives' cadres, and help them take the initiative and be creative in their practical implementation of the party branch's decisions. Third, it must set an example by observing cooperatives' regulations, respecting the democratic rights of their members, and educating party members to be models and leaders in economic activities.

### **Causes of, Solutions to Serious Rural Disputes**

*91CM0409A Shanghai SHEHUI [SOCIETY] in Chinese No 3, 20 Mar 91 pp 21-22*

[Article by Yuan Yue (5913 6460): "A Perspective on the Phenomenon of Rural Disputes"]

[Text] After five years of publicly disseminating knowledge regarding the law, considerable progress has been made in stabilizing rural social order. The most prominent expression of this is that criminal cases and public security cases have been brought under comparatively good control. However, as peasants' awareness of the law has grown, there has been a trend towards a growing number of disputes arising from contradictions. This continues to affect rural stability.

**A. Disputes Arising From Contradictions are on the Rise.**

Currently such disputes are varied, complex, and prominent in the countryside. The bulk of these disputes involve people of all ages. In the past the majority of such disputes involved middle-aged or elderly people,

but now the focus has shifted to middle-aged and young people. The content of the disputes is mainly directly related to economic interests, and disputes involving money, goods, dwellings, and land are increasing. The causes of the disputes include debt, property, and marriage. Gambling is a factor in various debt and family disputes. These disputes are characterized by their covert, acute, and harmful natures.

The various types of disputes have created anxiety and had a bad effect on rural society. Despite the fact that local cadres work all day long to resolve disputes, disputes continue to occur at an increasing rate. Take a certain village as an example: the village resolved 85 disputes in 1987, 106 in 1988, and 128 in 1989.

There is a trend towards an expanding scale of disturbances. The time span over which disputes occur stretches to 10 or 15 days, and it is difficult to end the disputes. A dispute may initially involve only a few people, and later several more become involved; many disputes involve 10 or even 100 people. In one case a village became involved in a dispute with peasant groups from three other villages; the dispute was over the construction of a brick-and-tile kiln on a mountain with an ancestral graveyard. The three peasant groups sent out more than 100 people carrying hoes and steel rods; they scooped up mud from the village's kiln factory, overturned unbaked bricks and tiles, and caused an economic loss of more than 3,500 yuan. There was no way for the village to mediate the dispute. Organizational personnel from the village mediation committee conducted an investigation and a discussion, and party and government leaders were sent out. After more than 40 days and six discussion meetings, they managed with some effort to calm things down, but hidden dangers still existed.

The difficulty of mediating disputes is growing. Peasants have been using the relevant legal knowledge and understanding of existing government policies that they have mastered over the last several years and have publicly struggled with cadres, using the law to counter the law. Grassroots cadres feel helpless in the face of this tactic, especially those from village party organizations who are handicapped by a lack of legal understanding and an even greater lack of understanding of government policies.

The losses incurred due to disputes are growing. Take a certain village as an example: Since 1989, three people have died under unusual circumstances, 46 people have been injured as a result of contradictory disputes, and economic losses have reached more than 6,500 yuan. Rural and village organizations have called in cadres to handle disputes 225 times. Medical fees for treating injuries from disputes totalled 3,865 yuan.

#### B. Perspectives on the Causes of Disputes

The causes for such a complex thing as a contradictory dispute are numerous and complicated. They involve primarily:

**Cadre problems.** Whether cadres-masses relations are good or bad depends to a very great extent on the cadres themselves. Recently, relations between cadres and masses in rural areas have been relatively strained. When it comes to building cadre teams themselves, there is no lack of lessons in experience and introspection that are worth summarizing. For example, if the construction of grassroots party organizations is neglected, this will result in the aging of village and party group cadres. Their quality will decline, and as a result it will be very difficult to appropriately meet the requirements of the present situation. The masses' concepts of a peasant commodity economy, a legal system, and their consciousness of participation have clearly increased, but grassroots cadres' level of policy understanding and their leadership skills cannot be improved rapidly. They are still using past methods of resorting to coercion and commands, simple and crude methods. Some abnormal party styles and social moods cause disgust among the masses. Some cadres work by relying on emotions and stressing reputations; they are not impartial when handling matters. They do as they please in order to reduce the labor and accumulated work of relatives or friends, and they open back doors for their sons and daughters with regard to family planning. Meanwhile relief cannot be transmitted to households that are genuinely in need. In the spring of 1990, in one village with more than 1,100 people, of the 12 peasant households that received relief—in the form of rice—when the spring crop failed, 9 were related to, or friends of, village cadres. Some village cadres lack a good moral attitude and do not think of forging ahead. When some cadres encounter difficulties, are criticized by superiors or the masses, or have their own benefits harmed, they "quit" their jobs.

**Remaining historical problems.** These include problems left after more than 10 years of rural reform, when organizations changed frequently and the means of production were not yet handled skillfully. In some cases, because "a new official pays no attention to old matters," remaining problems evolve into disputes. Some are contradictions are difficult to avoid, and evolve as the new system comes into being and supersedes the old system. This occurs especially with wooded mountain areas, cropland, and water conservancy facilities. In the past, when "everyone ate from the same bowl," no one cared to ask about the situation. After the contract responsibility system was implemented, it produced disputes involving contradictory interests over mountain areas, croplands, and water resources that pitted household against household, group against group, village against village, and county against county. Some were contradictions in policy adjustments. For example, the grain monopoly purchasing policy had been in place for many years and was accepted by the masses. Perhaps after reforms of contract orders were implemented, the masses believed that contracts should be equal. The cost of the means of production did not fall, yet the masses saw the purchase price of grain drop. This produced an

antagonistic mindset among the peasants, who were often at loggerheads with cadres over signing and fulfilling contracts.

**Policy problems.** These include such things as "policies coming from many places"; layer upon layer of mutually contradictory policies; wrangling that comes to blows; and higher authorities that do not give much consideration to local realities and difficulties, but open holes in policies and shift the policy burden to local authorities. Previously it was stressed that the surplus grain remaining after a peasant completed an order contract could be sold on the free market, with the price following the market price. But in reality, they could put the grain on the market only after also having the relevant spirit and completing the order contract by using the county as the unit. Higher authorities make policies stressing that grassroots cadres handle matters for the masses. They talk of improving agriculture, strengthening investment in agriculture, purchasing farm produce and sideline products, and not issuing IOU's. Meanwhile, lower levels "write checks." As a result of farm produce and sideline products, purchase prices have increased, and purchase funds for farm produce and sideline products have increased. However, local authorities have financial difficulties, and cannot achieve a financial balance or absorb policy burdens on their own; hence the burdens are transferred to the peasants. Serious policy stipulations become "mere scraps of paper," and the masses lose confidence because of this.

**Man-made problems.** These include overlooking the building of a rural spiritual civilization and being lax with rural ideological and political work. Some cadres lack ideals, convictions, and goals, and have the attitude that "each person tills his own field and looks after himself, and it has nothing to do with me." They overlook the increase in peasants' overall quality, the strengthening of mediation organizations in grassroots organizations, necessary administrative laws and regulations, and the incomplete notarization system. They overlook the leading nature of mediation and are often passive, failing to make timely preparations. They overlook "chain reactions." Often "they resolve one problem and create another." They adopt an approach of pure avoidance with regard to handling some sensitive disputes, and do not pay attention to resolving residual problems, so that often things go contrary to their wishes and turn out the opposite of how they wanted.

### C. The Integrated Control of Disputes is Imperative.

#### 1. Establish a rural mediation feedback system for controlling disputes and uncovering their causes.

Establish a joint mediation system between neighboring villages and rural areas, strengthen links between neighboring villages, and fully utilize the mechanisms for stabilizing society. Forces should be brought together for

consultation in disputes that cut across village lines. Establishing this type of organization will have a positive effect in terms of avoiding the shifting of responsibility by neighboring villages and rural areas, promptly mediating difficult disputes, and preventing the exacerbation of contradictions. Establishing a village, rural area, and group mediation network is also very important. Rural areas and village groups should establish mediation committees and subcommittees respectively, put someone in charge, achieve collective responsibility, and mutually handle grassroots mediation work properly.

#### 2. Reform mediation methods, eliminate points that set off disputes, and prevent disputes from intensifying.

To strengthen the internal vitality of mediating organizations, we must switch from the mediation of the past and focus primarily on prevention. We must switch from handling disputes passively to taking the initiative and handling them actively, and switch from past traditional methods to integrated methods, taking into account the legal, moral, economic, and administrative aspects of handling disputes.

#### 3. Strengthen the prevention system and reduce disputes arising from contradictions.

It is possible to implement a mediation target responsibility system at the grassroots level, taking the total number of disputes from the previous year as the base for formulating the target responsibility system, checking at each level, and making prevention and mediation the responsibility of both villages and rural areas. It is possible to invite older cadres to take on the duty of mediation. The political quality of these people is good: they understand the law, abide by it, and have a comparatively rich experience in ideological work. They have relationships and a common language with the parties involved in the disputes, and it is easy for them to gain those parties' confidence.

Strengthen the township and village industries and economies, and the systems for notarizing and managing contracts, property transfers, marriages, and inheritances. Achieve a reliable legal system that is effective in preventing "hot spots" that produce various disputes, reducing crime, and promoting social stability. Make prevention the primary focus, integrate prevention and mediation, make each peasant know and understand the law, observe discipline and obey the law, and take preventive measures. First, when promulgating and implementing seasonal and relevant laws and legal statutes that apply to personal disputes, we must concentrate on giving laws and statutes wide dissemination and on educating people about them. Second, it is necessary to work frequently and on a long-term basis with mediators, and launch special activities against factors that cause disputes. Third, it is necessary to periodically organize peasants to participate as visitors at public- and mediation-related meetings, enabling peasants to be a bellwether.

## NORTH REGION

### Party Member Recruitment Plan for Beijing

91CM0377A Beijing ZHIBU SHENGHUO [PARTY BRANCH LIFE] in Chinese No 3, 5 Mar 91 p p 16-17

[Unattributed article: "The Conference of Municipal Organization Heads Disposes of 1991 Member Recruitment Work"]

[Text] At the conference of organizational department secretaries held in Beijing between 29 and 31 January, the Organizational Department of Beijing's Communist Party Committee put forth a plan for 1991 party member recruitment. The major points of the plan include:

By further sharpening our awareness, we should pay attention to recruiting party members so as to ensure that the basic party line is realized and the party's position as the ruling party is consolidated. Currently, there are over 940,000 party members in Beijing. Generally speaking, the number of party members is not small. But in terms of membership composition, there is the problem of an aging tendency, with fewer front-line members and a smaller share of young members. The condition of party members is still incompatible with the requirements of the modernization process and the policies of reform and opening up. If such a situation persists, there will be a direct and negative impact on the party's position as the ruling party, on building party cadres ranks, and on realizing reform and construction. Party organizations at all levels must understand these problems clearly, develop a full awareness of the exceptional importance and urgency of recruiting party members, and increase initiatives in the work. We must be highly aware that we must maintain the party's nature as pioneers of the working class, consolidate the party's position as the ruling party, raise the party's fighting capability, enhance the flesh-and-blood relationship between the party and the masses, and ensure that the socialist modernization and reform and opening up are carried on smoothly.

We should formulate plans and strategies for party members, and take in new members according to the plans under unified leadership. The major criteria for formulating plans are the needs of the party's course and the condition of activists who want to join the party. The plans should not just include figures, but should focus on measures for implementing the work. When formulating plans, we should follow the methods of top-down planning, bottom-up planning, and a combination of the two. Top-down planning means that higher-level party organizations propose and advise on member recruitment based on needs and possibilities. Bottom-up planning means party branches propose recruitment figures according to the maturity of activists applying for membership. Combining the two refers to the final formulation of plans by party organizations at the district, county, and bureau levels, based on the above strategies. The plans should be directive in nature, not mandates,

and they may be modified according to actual conditions. Recruitment plans will be submitted to higher party committees for approval.

We will strengthen the work of recruiting party members from among youths on the front lines in manufacturing enterprises and rural areas, and further improve the composition and distribution of the ranks of party members. In enterprises, we should pay attention to recruiting backbone people in production groups and workers in demanding positions. Contract workers and rotational workers who have worked for more than two years and who qualify for membership may be recruited. Older workers who have applied for membership for a long time and who meet the due qualifications may also be recruited, even though their educational level is low. In rural areas, recruitment should focus on workers in township enterprises, and at the same time should consider educated peasants on production lines. It will take a relatively long time to solve the problem of shortages of party members on the front lines in manufacturing enterprises and in the countryside. We cannot lower our standards in order to recruit blindly and quickly. We should regulate between expanding membership reasonably and adjusting the membership distribution on production front lines in order to maintain the stability of party members on front lines, and gradually reducing the number of production groups without party members. At present, it is not appropriate to raise the slogan of "eliminating" production groups without party members. While we emphasize recruiting party members on the front lines in enterprises and the countryside, we should not ignore recruitment work in other areas and occupations. We will train activists and recruit members from among college and high school students.

We should maintain the standard for pioneering soldiers of the working class and guarantee recruitment quality. Quality should be given top priority in party recruitment. We will extensively measure candidates' qualifications based on the membership criteria postulated in the party constitution. First, we will maintain political standards in order to ascertain new members' political quality. We must pay much attention to inspecting and evaluating candidates' political stands, ideological awareness, organizational and disciplinary awareness, and motives for joining the party. This is in order to assess whether they have faith in the party's course; are determined to fight all their lives to build socialism and realize communism; earnestly study and carry out the party's line, strategies, and policies; conform politically to the party Central Committee; dare to fight against mistaken tendencies that deviate from party principles; are willing to make contributions to and serve the people well; take the lead as models in correctly handling the relationship among the interests of the individual, collective, and the state in their own occupational work and the work of integrating the masses; and whether they can observe party discipline, implement party resolutions, and actively carry out tasks given by party organizations. There must be full investigations about candidates'

behavior during the crackdown on the turmoil and counterrevolutionary rebellion. We should avoid and correct the bias of evaluations that are based solely on work competence and reputation and that ignore political stance, political and ideological quality, or that unilaterally emphasize the needs of work and pursue quantity at the price of overall quality. We should strictly follow the regulations set by the Central Committee and not allow owners of private businesses to join the party. We should guard against and prevent those hostile to the party and the socialist system and those who stubbornly persist in taking the stand of bourgeois liberalism from sneaking into the party.

**We will rectify and expand the ranks of activist candidates, and focus on training, educating, and inspecting those activists.** Presently, 320,000 people in Beijing have applied for party membership. Party organizations at all levels should work hard to train, educate, and inspect those activists according to actual conditions. Party organizations should have compassionate caring for every person applying for party membership, talk to them in a timely manner, and tell them which direction to go. Party members should be assigned to the applicants and should stay in close contact with them. Leisure-time party schools, training programs, and party lectures will be used to educate those activists on basic Marxist theories and the party's basic line, basic knowledge, and fine traditions. This year, the major text used in education is the "Text on Applying for Party Membership," compiled by the Central Committee's Organizational Department. Party organizations should invite activists to participate in party activities and assign them certain social work so that they will be tempered and tested by these activities. A system of regularly inspecting and evaluating activists will be set up. In general, these activists will be evaluated every six months, and their actions assessed every year, so as to give them timely help in making improvement and progress.

**We should pay attention to building Youth League organizations, strengthen youths' political and ideological education, and direct the Youth League organizations as they recommend fine Youth League members to party organizations.** Party organizations at all levels should strengthen the study and investigation of youths' ideologies, conducting purposeful ideological education and

political and ideological work in accordance with youths' characteristics. Educating youths should be carried out in a planned way, concentrating on patriotism, collectivism, and socialism to help youths establish a scientific world outlook and view about life, better their understanding of the party, and arouse their political enthusiasm. We should promptly discover, train, and help those who want to join the party to progress.

We will maintain and perfect the system by which the Youth League recommends applicants to the party organization as candidates for party membership. Recruitment of youths under 28 years of age will generally go through the procedure of training and recommendation by the Youth League. Recommendations should be based on set standards, following the principle of seeking truth from facts, and no quota or proportions for recruitment should be set. Party organizations should take measures to train and inspect those recommended by the Youth League, and promptly recruit those who are qualified.

**We will conscientiously try out the detailed rules and regulations for recruitment, and raise the level work standardization.** We will conduct workshops to train party branch secretaries and party members in understanding the "Detailed Rules and Regulations," making them fully master every single rule and requirement. Party lectures will be devoted to explaining the "Detailed Rules and Regulations" to activists so that they understand the document. Every work unit should evaluate its party member recruitment based on the document. Failure to follow correct practices, and breaches of the document, should be corrected promptly. Furthermore, operational regulations and work procedures should be formulated and perfected so that recruitment is based on the actual situation.

**We will further establish, perfect, and utilize a system of organizational personnel.** This year, every district and county will have to put up positions for full-time organizational personnel. Certain bureaus, general companies, large- and medium-sized enterprises, and universities with many subordinate units will also have full- or part-time organizational personnel. Townships, towns, and communities with the right conditions may also have such personnel. The major task of organizational personnel will be to recruit party members and administer the work of educating party members.

### Private Investment in Construction Encouraged

91CE0477A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 9, 4 Mar 91  
p 30

[Article by Zhang Yi (4545 1837): "Encouraging Private Investment and Promoting the Construction Program"]

[Text] In January, Taiwan's "Executive Yuan" formally adopted the Six-Year Economic Construction Plan. In order to relieve the government's financial burden, it was decided to encourage private investment in public utilities, treating this as one of the major methods for opening up more funding sources and reducing government expenditures. In view of the business community's low willingness to invest, Taiwan authorities currently plan to take measures to remove the obstacles to private investment and encourage the private sector to actively participate in constructing public utilities.

### A Preliminary List of Eight Major Projects

Some days ago Kuo Wan-jung, director of the "Economic Construction Committee of the Executive Yuan" commented that of the 5.2 trillion yuan of fixed capital planned in the Six-Year Construction Plan, 1-trillion worth is expected to be investment projects operated by the private sector. She said that there are many ways in which the private sector can participate in the Six-Year Construction Plan, two major ones being financial participation and project participation. With regard to financial participation, at present the private sector has abundant financial resources, but only limited investment opportunities. Therefore the most direct private participation is through purchasing government bonds and pooling scattered private funds into construction funds for the government. Project participation may also be divided into direct and indirect participation. Indirectly, government projects may be contracted out to the private sector. Directly, the private sector may raise funds itself and completely take over construction of public utilities. Therefore, it is estimated that in future a large number of projects will involve private participation.

It is reported that at present Taiwan authorities have already planned eight major construction projects: 1. a six-year, "national housing" construction program, a low- and middle-income housing program, and other types of housing construction; 2. a program for constructing parking lots; 3. the joint development of express railways and transportation stations; 4. the construction of ports and public rest areas; 5. a program to upgrade the national airline; 6. agricultural mechanization; 7. large shopping centers; 8. the future privatization of telecommunication projects. It is reported that these projects are preliminary ones and that private participation will in future be expanded into such programs as constructing industrial ports, reservoirs, and household water supplies.

### Eliminating Obstacles to Private Investment

Taiwan authorities placed great hope on private investment when they were trying to mobilize enormous amount of funds for the Six-Year Construction Plan, and the low level of willingness of private investors in recent years remains a cause of concern.

In recent years the instability of Taiwan's political situation and its sluggish economy have led to a serious decline in the private sector's willingness to invest. Last year the growth rate of fixed private investment was a negative 8.88 percent, the lowest in the last 33 years. It was quite an event.

Hau Pei-tsun, president of the "Executive Yuan," is particularly concerned about this. He demanded that financial and economic departments take such approaches as enhancing industrial automation; supporting the development of small- and medium-sized, as well as of large-sized, enterprises; putting environmental protection in place; and minimizing confrontations in order to encourage investment activities of the private sector.

Kuo Wan-jung also emphasized that last year's negative growth in private investment is unprecedented and that the government will continue treating improvement of the investment climate as a major item in future agendas. Along with the Six-Year Construction Plan, the government will also improve enterprises' labor productivity and motivate private investment.

Hsiao Wan-chang, head of the "Ministry of Economic Affairs," said that previously the tools of finance, rent, and taxes were used to induce private investment, and therefore those incentive measures are now rather complete. However, other non-financial, non-rent, and non-tax barriers still need to be removed, and labor, environmental protection, and social security problems still need resolving.

### Unfavorable Factors Will Not Disappear in the Near Term

Taiwan's business community is pleased with Taiwan authorities' concern about restoring the private sector's willingness to invest, and it suggests that the government perfect environmental protection regulations, exercise its governing authority, and take various concrete measures to generate private forces of investment.

Businessmen believe that the unwillingness to invest in ordinary trades has much to do with the deteriorating business climate in Taiwan at present, and that the government should completely change its image by starting to work on such issues as social safety, political struggle, and investment incentives in order to establish the business community's confidence in the government.

Businessmen believe that the success or failure of the Six-Year Construction Plan promoted by the government depends on whether private resources can be attracted. The government should not expect to improve



the overall economy by merely constructing additional highways. Businessmen believe that, in order to mobilize investment, the government should improve the investment climate while the construction plan is being implemented. The most important aspect, other than removing economic and non-economic barriers, is to consolidate technology.

Some businessmen point out that high-tech industries need a sound investment climate, including a research-and-development [R&D] climate that respects intellectual property rights, as well as having sufficient financing channels available. Since high-tech industries are technology- and capital-intensive, protection for R&D discoveries has a bearing on the permanent operations of industries. Raising funds is also critical to the continuity of R&D in science and technological industries. Therefore, intellectual property rights protection and effective financing channels are indispensable factors for the government to effectively enhance the willingness to invest in science and technological industries.

There were businessmen who found that some of the existing policies are inconsistent with, or perhaps even contradictory to, past policies, making it difficult for the business community to follow them. Businessmen believed that policy is the leading factor directing the business community to move forward. They suggested that the government formulate long-term industrial policies, and the business community would naturally go ahead with investment based on these policies.

They also suggested that Taiwan authorities work out itemized and detailed programs within the Six-Year Construction Plan and concretely determine the components where the private sector can participate, the amount of participation, and prospective projects for future private operation, making it possible for the private sector to act cooperatively.

Private investment is undoubtedly the force driving Taiwan's economic growth. Only continuous investment can promote economic growth and improve the lives of the population. Taiwan has ample human resources, supplies of materials, and financial resources. If various public utilities projects could be left to the private sector's participation, Taiwan authorities might be relieved of a large sum of investment funds. Due to various factors, since the beginning of the year the public has felt pessimistic about this year's economy and prospects for private investment. Wei Jui, director of the "Major Planning Division's Third Department," believed that although this year the growth of private investment is expected to shift from negative to positive on a seasonal basis, the growth rate is estimated to be only 2.64 percent. People in economic circles further believe that because the unfavorable factors affecting investment willingness are not likely to disappear in the short run, the growth rate of private investment will not likely rebound until next year or the year after.

### Enterprises Alerted on MFN Issues

91CE0594B Taipei CHING-CHI JIH-PAO in Chinese  
10 May 91 p 2

[Comprehensive dispatch: "Economic and Trade Development Between the United States and Communist China Affects Taiwan-PRC Interchanges—Taiwan Business Circles View This as Alarming News but Also See Reasons for Optimism"]

[Text] On both sides of the Taiwan Strait attention is now focused on one thing: Will the United States really withdraw most favored nation [MFN] treatment from Communist China? How far will that affect economic and trade activities between the two shores of the Taiwan Strait, a relationship that is becoming closer with every passing day?

On a study of all the circumstances and factors involved, the Mainland China Research Institute of the Chung-Hua Institute for Economic Research [CHIER] believes that the most likely scenario will be that the United States will not withdraw MFN treatment from Communist China, but will "conditionally" extend it.

However, since Taiwan businessmen are now such frequent visitors to the mainland to invest and later to do entrepot business, the question whether "constriction" of the MFN privileges by the United States concerning trade with Communist China will indirectly affect the interests of Taiwan factories and business enterprises, is, in the opinion of the CHIER, a matter that is well worth our close attention.

Wu Hui-lin [0702 1920 2651], a research fellow at the CHIER, indicated that the United States, adhering to its philosophy of "raising chickens" [to lay golden eggs], is looking covetously at the huge market which it envisions for the time when the mainland will fully open up economically, and therefore certainly will not suddenly cut off its MFN treatment of Communist China this year, lest such action destroy the future chances of the United States. He indicated that even last year, when Communist China's trade surplus with the United States reached as high as \$10.4 billion and evoked a strong reaction from the American farmers and industrialists, who clamored for raising customs tariffs and for adopting other protectionist measures, the United States took a long-range view, and the Congress finally most likely "gave a rebate" (raising the favorable duty tariff but with a discount) and allowed that bill to pass.

Wu Hui-lin, however, also pointed out that the future trade policy of the United States toward Communist China is bound to indirectly affect investments and business operations by Taiwan businessmen. The question is whether it will bring Taiwan businessmen and the mainland together in one common front, because of their intertwined economic interests; there is the possibility of some rather delicate developments.

An inkling of these delicate changes have to some extent become visible last year after the Tiananmen incident. Zhang Rongfeng [1728 2837 6265], a research fellow of the Mainland Research Institute of CHIER, pointed out that the present Taiwan-Hong Kong situation is equally awkward. Last year, after the 4 June Tiananmen incident, all circles in Hong Kong severely rebuked Communist China for violating human rights; however, due to the extremely close common interests of Hong Kong and the mainland, it even happened that Hong Kong businessmen verbally criticized Communist China for violating human rights, but personally still canvassed the U.S. Congress to allow Communist China continued MFN privileges, lest they, the Taiwanese, incur losses in their mainland investments.

Zhang Rongfeng said that, according to his judgment, the conditions which the U.S. Congress will attach when it extends MFN privileges for Communist China will not only be concerning human rights, but also the imbalance in U.S.-PRC trade—for instance, last year Communist China created the huge trade surplus of \$10.4 billion in its trade with the United States—will certainly also be a primary topic to be raised when the conditions will be negotiated. He also pointed out that in the list of intellectual property rights (especially 301) in the recently promulgated U.S. Comprehensive Trade Law, Communist China is listed in first place in the “priority investigation list,” and it can be foreseen that in view of the expanding trade surplus of Communist China in its trade with the United Nations, the trade friction between the United States and Communist China will become more serious by the day.

Regardless of what kind of “constraint” there will be, those Taiwan businessmen who have invested in the mainland regard it as an “alarming news,” but although they will not dare treat this matter lightly, they are still somewhat optimistic.

The U.S. customs tariff for handbags produced in Taiwan is now 20 percent. If the tariff for mainland products will one day be raised, it will cause some orders to be lost by the mainland. However, since Taiwan is suffering from a manpower shortage, the main beneficiaries of any “constraint” imposed by the United States on MFN benefits for Communist China will be such Southeast Asian countries as Malaysia, the Philippines, and Thailand.

Regarding the Sanfang Chemical Engineering Company, which still maintains a wait-and-see attitude, and the condition of its investment on the mainland in “downstream” third-level processing plants, the mainland side seems to contribute only labor, while everything else, such as capital, raw materials, etc. is all provided by Taiwan. Should the time come that there is a change in the MFN privileges for shipments from Communist China to the United States, the smart Taiwan businessmen will compare the costs of customs duty and freight, and may possibly reship the semifinished products from the mainland back to Taiwan, pack them, and

ship them from Taiwan to the United States. This will have no effect on the future shipments from the imitation leather factories to the mainland.

Sanfang will also analyze, that suppose the U.S. tariff for mainland products will be higher than for Taiwan products by more than 25 percent, on a comparison of labor costs with Taiwan, the saving in labor costs may still be sufficient to compensate for the difference in customs tariffs for the two places of origin. A manufacturer of knapsacks in the Dong Wan Tang Building in Guangzhou holds the same view. He believes that in view of the conditions of third-level processing of plastics on Taiwan, conditions for linking up with the mainland for production are better than conditions in Southeast Asia.

An industrialist who is planning to set up a factory in the suburbs of Shanghai to manufacture plastic bags said that his investment plan on the mainland will not be held up because of the possible said changes, because when the 4 June incident occurred, which was more serious than the present conflict, it also blew over. He believes that the mainland is still a suitable place for Taiwan businessmen to invest. As long as there is efficient management, the various advantages on the mainland are still extremely attractive.

Another industrialist who recently planned to set up a factory on the mainland to manufacture tennis rackets explained the reason for setting up a factory on the mainland is the shortage of manpower and almost daily wage increases in Taiwan. He said that whether the United States withdraws MFN benefits from Communist China or not has no influence on his plans to undertake setting up the factory.

The news which this industrialist got from his American customer is that this problem had already been under discussion last year, and in the end MFN privileges were indeed extended. The old stuff is now being rehashed this year, and the result will probably be the same.

### Editorial on Revitalizing Economy

91CE0594A Taipei CHING-CHI JIH-PAO in Chinese  
21 May 91 p 2

[Editorial: “How To Effectively Stimulate the Economy’s Recovery”]

[Text] This newspaper reported yesterday that the Directorate-General of Budget, Accounting, and Statistics [DGBAS] of the Executive Yuan indicated a few days ago that this year’s economic growth rate had to be adjusted downward from the 6.22 percent that had originally been forecast to 6.06 percent. The main reason for this is that private investments during the first quarter of this year had declined 6.52 percent, as compared with the same period of last year. We believe that the downward adjustment of the economic growth rate undoubtedly shows that the economic recovery this year does not come up to expectations. The question how to rapidly revitalize the economy has therefore become an

important topic of present financial and monetary policy, a topic that the authorities concerned must view as of utmost importance, and for which a speedy remedy must be sought.

Actually, for over one month, the question whether the government should adopt measures to stimulate the economy, and which measures to take, has always been a concern in many quarters, and many arguments have been presented on these questions. Those who are in favor of adopting stimulating measures argue that it is urgently necessary to adopt measures such as lowering the interest rates and easing the money supply, because the domestic economy has been deeply involved in a recession since June of last year, without so far showing signs of improvement. There is little inclination to invest, foreign trade is down, and the domestic interest rate is inordinately high. However, those who hold the opposite view believe that the economy has recently shown signs of recovery, trade on the stock market has become brisk, there are signs that foreign capital investments are eager to come in, and the state's planned six-year construction will also require large issues of government bonds. If one were now to adopt measures to ease the money supply by lowering interest rates, it will very likely lead again to "playing the currency game," threatening monetary stability, and increasing inflationary pressure. One should, therefore, not talk lightly of adopting measures to stimulate the economy. Moreover, there are some people who believe that although it might be possible to adopt measures to stimulate the economy, one must not lower the interest rate.

The above shows that the core problem in whether or not to adopt measures to stimulate the economy is ascertaining the present economic condition. Those who are in favor of immediately adopting remedial measures believe that the economy presently remains deep in a recession, and they do not see signs of recovery. Those who reject this idea believe that the economy is already showing signs of recovery, and that adoption of stimulating measures will lead to playing the currency game. Therefore, what is required is a more objective assessment of the present state of the economy. The Council of Economic Planning and Development [CEPD] of the Executive Yuan felt it its bounden duty to provide a clear explanation that people will believe. Kuo Wan-ying [Shirley W. Y. Kuo 6751 1238 1369], chairperson of the CEPD, indicated a few days ago that an analysis of economic countermeasure signals shows that the domestic economy is still in the valley of a depression, while the real growth rate of this year's private investments is only 1.48 percent, which is really the most serious worry in the present economic development. If, while considering the facts once more that there has been a slump in this year's exports and that the DGBAS has adjusted its estimated economic growth rate downward for this year, and if the economic countermeasure signals of the CEPD can be trusted, we have to affirm: our economy has not yet recovered, and whatever recovery

might have occurred was very slight. Therefore, it is necessary to adopt financial and monetary measures to stimulate the economy.

Means of stimulating the economy are mainly financial and monetary policies. In their long-range effects, the financial stimulation will be stronger than the effects of monetary stimulation, but when it comes to elasticity and flexibility, monetary policies are better than financial policies. Economic stimulation by financial policy relies mostly on increasing public spending (especially the increase of public investments) and reducing taxation. The effects of these two stimulants are very strong and direct, but can only be implemented through the legal procedure of budgeting. Thus, they have little elasticity, and frequently come too late to mend an emergency. On the other hand, stimulating the economy by monetary policy, be it by lowering interest rates, lowering the deposit reserve rate, or by buying operations on the open market, can all be freely used by the central bank, and these measures are extremely flexible. Moreover, as the foreign exchange market has been decontrolled, an optimum use of foreign exchange policy can also add to the flexibility and effectiveness of the monetary policy.

The financial policy and the monetary policy each have their particular advantages. The best policy for economic stimulation would therefore be an appropriate combination and application of the two. First, using monetary policy for an optimum easing of the money supply, and inducing an optimum lowering of market interest rates. Although lowering interest rates is not the only factor to promote greater willingness to invest, it is still a most important positive factor. As to the playing of the currency game due to the easing of the money supply, one might consider selective control of credit as a countermeasure. At this time, "optimum easing of money supply" and "inducing an optimum lowering of interest rates" are extremely important, and must be carried out even if inflationary pressures are, within manageable limits, increased. Secondly, as far as the financial policy is concerned, it must, in conformity with the progress of the planned six-year national construction, expand public investments and implement the public investment policy. These measures will, on the one hand, stimulate the economy, and, on the other hand, replenish the economic infrastructure. In this way both the monetary policy and the financial policy would together become effective, and effective not only in stimulating the economy, but also in the spurring on further economic development. However, it seems that most recently the relevant units of the government have not yet reached a common understanding as to whether and how to stimulate the economy. It even happens that each unit does things its own way, and there is dissent due to departmental egoism. We deeply hope that the units concerned will abandon departmentalism, will completely iron things out and cooperate, that they will quickly come to a common understanding, and as soon as possible institute effective measures to stimulate the economy.

### Editorial Urges Stronger Bond Market To Support Construction

91CE0598A Taipei CHING-CHI JIH-PAO in Chinese  
26 May 91 p 2

[Editorial: "A Stronger Bond Market Would Be the Proper Way To Raise Funds for Taiwan's National Construction Plan"]

[Text] After the Central Government offered its second issue of 1991 construction bonds worth 45 billion yuan New Taiwan (NT) on 8 May 1991, sales fell off sharply and the bonds were slow to sell. By the closing day of sale on 21 May 1991, the central bank still had on its books about 2.5 billion yuan of these bonds that had not been sold. It was only after the various participating financial institutions had bought the bonds themselves that this issue of government bonds was finally sold out. While the amount of these bonds that some participating banks were truly unable to sell was actually far greater than that reported to the central bank, most of the participating banks bought them with their own funds to keep from getting a poor sales record that would affect their future participation in bond sales.

Although this issue of 45 billion yuan worth of government bonds was finally sold out with some difficulty, the coming years are going to be a period of intensive issue of construction bonds. The Ministry of Finance estimates that construction bond issues will amount to 2 trillion yuan, or over 300 billion yuan a year, during the coming six-year national construction plan period. The Central Government budget for fiscal year 1992, beginning on 1 July 1991, which is now under discussion by the Legislative Yuan, is scheduled to issue 250 billion yuan of ordinary construction bonds and 110 billion yuan of special construction bonds, which will amount to 360 billion yuan, or more than eight times the amount of this second 1991 issue. Whether these 1992 bonds can be sold successfully, is a matter of fundraising and construction progress for the national construction plan, which senior financial and economic affairs officials are taking very seriously. As to the causes of the slow sales of this second 1991 issue of government bonds, in addition to the fact that the interest rates were not very attractive, the lack of a brisk bond circulation market was even more crucial. Thus, establishing a stronger bond market should be a task of top priority. As CHING-CHI JIH-PAO has already published a detailed analysis of this matter in an editorial on 23 May 1991, we are now offering some additional thoughts.

A complete bond market should pay equal attention to both stocks and bonds, which should be developed to supplement each other. While bond markets are even larger than stock markets in advanced industrialized countries, such as the United States and Japan, Taiwan's bond market development achievements are less clear. Bond markets can be divided into primary and secondary ones, with the primary one being called the market of issue, and the secondary one the circulation

market for the buying and selling of bonds that have already been issued. Circulation markets are also divided into two markets, with one being a centralized market for negotiable securities trading, or Taiwan's current stock exchange, and the other being commonly known as "shop markets," also called over-the-counter trading, in which various independent negotiable securities dealers or agents set up special trading counters at their places of business, where investors trade at negotiated prices either in person or by phone. In order to expand stock market functions, establish a brisk bond market, and facilitate circulation of bonds that were not on the market, the Taiwanese government opened bond shop markets on 4 October 1982 for the trading of things, such as government, bank, and corporation bonds. But on one hand, the amount of outstanding bonds put or registered on these markets is limited, amounting by the end of April 1991 to less than 240 billion yuan, of which government bonds constitute the most, or 179.8 billion yuan, corporation bonds are second with only 43 billion yuan, and bank bonds account for only 17 billion yuan. On the other, most government and corporation bonds are held by participating banks, so that their external circulation as bargaining chips is extremely limited, leaving circulation markets restricted and their expansion blocked.

As the various participating banks were unwilling to voluntarily purchase this 45 billion yuan of 1991 construction bonds that were issued by the Central Government, they will be not only unwilling but also unable to purchase the 2 trillion yuan of government bonds that are going to be issued in the next six years, which will force them to rely on investors. In light of this, the Ministry of Finance has made certain major revisions of the issuing conditions and forms in the revised draft of the "Regulations on Issuing Central Government Construction Bonds," which it sent to the Legislative Yuan for examination and approval in 1990, in order to make bond purchases more attractive to investors. However, free market circulation and convertibility are more basic than profitability in getting investors to rush to buy government bonds. Since this 1991 issue of government bonds was so slow to sell, the central bank and the Ministry of Finance have made self-criticisms, reached a consensus, and begun to improve the trading regulations for bond circulation markets, in order to speed up bond circulation. We would like to take this opportunity to offer the following views, for government reference in establishing stronger bond circulation markets:

1. We must point out that, as Taiwan lacks bond market development experience and has limited qualifications in this area, Taiwan's experience in developing a centralized stock market must absolutely not be used as a blueprint for our bond market development. This is because these two markets are basically different, and it is very hard to find a single investor in the centralized stock market who trades in identical bonds at the same volume and price on both markets at the same time. Thus, the huge amount of government bond market

trading in the United States, which has the most developed bond markets (with an average turnover of about \$120 billion a day in 1989), is all conducted through shop markets, and 95 percent of Japanese bond trading (averaging about \$80 billion a day in 1989) is through shop markets, while only 5 percent is conducted on the centralized stock market. Therefore, Taiwan's bond circulation market reform should be focused on shop markets. Otherwise, our reform orientation would be wrong, not only costing us twice the effort for half the results, but also preventing the effective implementation of our six-year national construction plan, which would be even more harmful.

2. The bond market development experience of the United States and Japan shows that independent bond traders play an extremely important role in bond markets. As long as independent bond traders are allowed room to develop, they will develop their own standards, and devote their efforts to developing new business and brisk bond circulation markets. If independent bond traders, who are certainly achieving outstanding results in bond circulation market trading, are allowed to play a direct role in the primary markets that issue bonds, our future huge bond issues will sell out smoothly. Thus, working out ways to bring the bond market invigoration function of independent bond traders into full play should be a task of top priority.

3. A stronger bond market must have better tools, trading regulations, and supporting measures. For instance, after the bond issue regulation amendments are passed, financial means of avoiding risks should be allowed to be developed, in order to lower the interest rates risks of independent traders and investors. In order to reduce waste of bond market payment time and manpower, a system of accounts settlement between independent traders and banks should be established. We must make plans as soon as possible for a complete reform program.

If our financial and economic affairs authorities can accept these views, by drawing up a comprehensive bond reform plan and expediting it effectively, we believe that a stronger bond market can be established, funds for our national construction plan can be raised properly, all of our investment plans can be expedited smoothly, and a modern national blueprint should be able to be created for all of Taiwan.

#### **Ministers Differ on Six-Year Plan Funding**

*OW2306124891 Taipei CHINA POST in English  
19 Jun 91 p 6*

[Text] Financing for the NT\$8.2 trillion (US\$301.9 billion) Six-year National Development Plan will not be a great difficulty for the government, Shirley Kuo, chairwoman of the Council for Economic Planning and Development, said yesterday.

At a Cabinet seminar, Kuo said that of the huge budget for the plan, only 43.9 percent, or NT\$3.6 trillion

(US\$132.4 billion), would have to be raised by the government as capital expenses, extra budgetary outlays earmarked for public construction projects in addition to current fiscal expenditures.

The shortfall, if offset by previous budgetary surpluses, would be cut to some NT\$1.1 trillion (US\$40.5 billion), only requiring the government to issue around NT\$183.3 billion (US\$6.7 billion) in bonds annually to back the plan, she said.

The chairwoman also revealed other financing details for the national plan yesterday, which she said would also include the government's current expenditures, as well as investment from state and private firms.

Of the NT\$8.2 trillion (US\$301.9 billion) earmarked for the Six-Year Plan, NT\$1.9 trillion (US\$69.9 billion) will come from government current expenditures, listed in its current fiscal budget, Kuo explained.

Among other financing projects, NT\$2.1 trillion (US\$77.3 billion) will derive from investment made by state-run enterprises and NT\$600 billion (US\$22.1 billion) will come from private investors, she said.

But Kuo's optimism is not shared by Minister of Finance Wang Chien-shien, who argues that total expenditures for the Six-year plan will inflate and possibly far exceed the originally planned figure.

Wang cited the Ten Major Construction Projects, whose actual outlays have increased by more than 40 percent over plan. If the same were true of the Six-year plan, it would be a heavy financial burden.

But the minister said that the nation has enough capital for the national plan, and the real problem lies in how to get as much capital as possible from both the public and private sectors.

And there are many ways to draw funds from private entrepreneurs, such as by selling state firm shares, Wang said.

To prevent privatization from draining capital away from the Taiwan Stock Exchange, the government will attempt to draw more foreign capital into the local bourse at a suitable time, he added.

#### **Export Orders Rise 6.05 Percent in May**

*OW2106090491 Taipei CNA in English 0802 GMT  
21 Jun 91*

[Text] Taipei, June 21 (CNA)—Export orders totaled 6.24 billion US dollars in May, a single month record since March 1989, indicating that the economy is recovering, a ranking Ministry of Economic Affairs official said today.

Total export orders received between January and May were estimated to reach 29.41 billion US dlrs, a growth of 6.05 percent.

In view of May's strong performance, the official was optimistic about export prospects for the third quarter.

The recovery can be attributed to improvements in domestic industrial structure, diversifying export markets, a stronger world demand since the Gulf war and increased exports to Mainland China, the official said.

The official said that the highest growth in export orders came from Europe and Asia, 16.8 percent and 13.08 percent respectively compared with that of corresponding period last year.

Orders from mainland China via Hong Kong also showed a growth of 38 percent.

In contrast, export orders from the United States, Taiwan's largest export market, only saw a growth of 5.7 percent.

#### **CETRA To Set Up Trade Office in Moscow**

*OW2206084991 Taipei CNA in English 0759 GMT  
22 Jun 91*

[Text] Taipei, June 22 (CNA)—The China External Trade Development Council (CETRA) will open a trade office in Moscow as part of a plan to promote trade with five economically developing regions.

The plan, initiated by the Ministry of Economic Affairs, will concentrate efforts during the 1992 fiscal year on Southeast Asia, Latin America, the Middle East, Africa and Eastern Europe.

CETRA said it is waiting for the necessary approval from Moscow authorities, and hopes to open the office before the end of the year.

In order to step up trade with Eastern Europe, economic officials also plan to hold bilateral trade talks with East European countries that are friendly with the Republic of China.

#### **Six Industries Permitted To Hire Foreign Workers**

*OW2206090991 Taipei CNA in English 0821 GMT  
22 Jun 91*

[Text] Taipei, June 22 (CNA)—The government will permit six industries to hire foreign workers, Chao Shou-po, chairman of the Council of Labor, announced Saturday.

The six are the dyeing, basic metal, metal product, machinery, electric engineering and construction industries.

Chao said the six industries had an estimated 58,907 job openings at the end of May, but local people were unwilling to fill the vacancies because of harsh work conditions.

After careful study, Chao said his council decided to allow the industries to employ alien workers to help relieve labor shortage problems. But, he stressed, the companies can still not hire mainland laborers.

The Industrial Development Bureau is surveying the worker recruitment and business development plans of the six industries. Chao said his council will use the survey results to decide when and how many foreign workers the companies can apply to recruit each year.

According to draft regulations governing the recruitment of alien workers, employers are obliged to regulate foreign laborers and to send them back to their home countries after their employment contracts expire. Each foreign employee will be allowed to work for one year in Taiwan, and, if necessary, employment can be extended for second year.

Even though the six industries will soon be able to legally recruit workers from abroad, Chao said the government will continue its crackdown on the some 30,000 foreigners now illegally working in Taiwan.

The government currently allows contractors on major public construction projects to employ alien workers on a case-by-case basis.

#### **Argentine Trade Mission Leaves for Taipei**

*OW2506183691 Taipei CNA in English 1457 GMT  
25 Jun 91*

[Text] Buenos Aires, June 24 (CNA)—A four-member delegation from Argentina has left for the Republic of China where they will take part in the third international food processing and machinery exhibition being held at the Taipei World Trade Center.

The delegation, led by Dr. Mylton Albergoli, president of the Sino-Argentine Commercial and Industrial Development Association, will represent 12 Argentine enterprises to take part in the exhibition to promote trade between the two countries.

After the exhibition, the Argentine businessmen will meet with their Chinese counterparts to explore trade opportunities.

Two-way trade between the Republic of China and Argentina totaled 100 million US dollars in 1990. The figure is expected to top 200 million US dollars this year.

#### **Firms To Invest in Costa Rican Export Processing Zone**

*OW2506123091 Taipei CNA in English 0835 GMT  
25 Jun 91*

[Text] Taipei, June 25 (CNA)—Two Taiwan companies have decided to set up production lines in the Costa Rican Export Processing Zone being built by the BES Engineering Corp., sources said.

The two companies will invest 1 million U.S. dollars each in the Caribbean nation for plastic and metal product manufacturing, the sources said. The new plants are scheduled to begin operations by the end of this year or in early 1992.

Ten other local companies have also expressed interest in setting up plants in the new Costa Rican Export Processing Zone whose first-phase construction will be completed in mid-August.

A seminar was held in Taipei yesterday to introduce the 32-hectare export processing zone and the general investment climate of Costa Rica to local businessmen. Costa Rican Vice Minister of Foreign Commerce Bernardo Kopper, currently on a 10-day visit to Taipei, presided over the seminar.

Similar symposiums will be held in Taichung and Kaohsiung in the next few days with hope of attracting Taiwan investors to the new Costa Rican Export Processing Zone.

According to official Costa Rican tallies, 19 Taiwan companies have already invested in the Caribbean nation producing garments, umbrellas, and sundry goods.

#### **Foreign Trade Expected To Exceed 1990 Level**

*OW2606135291 Taipei CNA in English 0831 GMT  
26 Jun 91*

[Text] Taipei, June 26 (CNA)—The Republic of China's foreign trade is expected to reach 135 billion U.S. dollars this year, a hike of 11 percent over the 122 billion U.S. dollars registered in 1990, Vice Economics Minister P.K. Chiang said Wednesday.

Judging from the nation's foreign trade in the first five months of this year, he said this year's total exports should amount to 74 billion U.S. dollars, and imports 61 billion U.S. dollars.

He pointed out that exports to the Chinese mainland have increased substantially in recent months. Since the economic and political situations of mainland China is unpredictable, Taiwan exporters should be cautious in doing business with the mainland, he added.

#### **Faster Economic Recovery Seen in May**

*OW2706082291 Taipei CNA in English 0801 GMT  
27 Jun 91*

[Text] Taipei, June 27 (CNA)—The domestic economic recovery accelerated in May, with the monthly economic performance getting a higher rating than in April, the Council for Economic Planning and Development (CEPD) reported.

The May index of coincident indicators, which measures economic performance for the month, rose an encouraging 0.81 percent from April to 135.25, CEPD said. The index was 3.06 percent higher than a year before.

The index of leading indicators, a measure of economic health in the months ahead, advanced 0.32 percent from April to 109.04. It was the third monthly gain in a row.

Of the major indices CEPD uses to measure the national economy, four turned for the better, two worsened and the remaining three maintained at the April's levels.

Improvements were seen in industrial production, capital flows, exports and orders placed with local manufacturers. Rises in three figures were signs of reviving business activities.

Manufacturing inventories and the number of bad checks increased in May, which adversely affected overall monthly economic performance. Stock price index, money supply and bank loans to private enterprises remained unchanged.

The May economy got a score of 22 points on the CEPD's composite index, one point less than the minimum 23 points to enter the safe "green light" category.

CEPD uses five colors to measure the country's economic health: red, yellow-red, green, yellow-blue and blue. "Red" means the economy is overheated; green implies all is going well; and blue signals a slowdown.

The domestic economy has been the "yellow-blue" category since March 1990.

#### **Fifteen New Banks To Be Established**

*OW2706075791 Taipei CNA in English 0748 GMT  
27 Jun 91*

[Text] Taipei, June 27 (CNA)—The Ministry of Finance Wednesday approved 15 applications to establish new private commercial banks as part of its efforts to liberalize the country's banking industry.

The new banks, selected from among 19 applications submitted before the October 1990 deadline, are the first to be approved since 1975.

"This is a historic move," Vice Finance Minister Li Chung-ying told a news conference as he announced the list of approved banks.

"The opening of new private banks marks a big step forward in liberalizing our banking system," Li said. "We hope these banks will stimulate our banking industry to become more efficient and to eventually penetrate international financial markets."

Explaining why the number of approved banks is larger than expected, Li said the local financial market is large enough to permit quite a few new banks to operate viably.

Lee said the licensing of "so many new private banks" will also stimulate the existing 24 government-owned banks to enhance the efficiency of their operations and the quality of their service.



To enforce banking rules and prevent abuse, Li said his ministry's monetary affairs department will be upgraded to bureau status on July 1 and its staff will be doubled.

Most of the 15 newcomers to the local banking scene are backed by leading business groups here, including the President group-backed Wan-tung bank, the Formosa Plastics Group-supported Ta-chung Bank, the Pacific Group-backed Ta-an Bank and the Hua-hsin Bank supported by the Kuomintang-run Central Investment Holding Co.

The four failed applicants include the Hui-tung bank proposed by Taiwan's richest man Tsai Wan-lin and Lan-yang Bank initiated by the Hualon Group. They were denied new licenses mainly because of discrepancies in their capital structures and other irregularities, finance sources said.

According to Finance Ministry rules, a minimum 10 billion new Taiwan [nT] dollars in paid-in capital is required for a new private bank and at least one-fifth of the capital must be raised from the stock market. Four-fifths of the funds must be raised before the application can be made and 2 billion nt dollars must be deposited in a designated financial institution by each applying bank.

The Finance Ministry is expected to grant official operation permits to the 15 new banks within two months and most of the banks are scheduled to start operations early next year.

The new banks, permitted to have up to five branches each, will create an estimated 4,500 to 6,000 new job openings over the next few years, sources said.

Most local economists hailed the Finance Ministry's decision to license the 15 new private banks. Shirley Kuo, chairman of the Council for Economic Planning and Development (CEPD), said the move marks a big step forward in financial liberalization. The opening of the large number of new banks will help liberalize interest rates and introduce new financial products into the local market.

Li Kao-tsao, a CEPD department chief, said that an enlarged and more competitive private banking sector will help upgrade banking services and improve the prospect of Taiwan becoming a new regional financial center.

### **Ranking British Trade Official To Visit**

*OW3006212091 Taipei Voice of Free China in English  
0200 GMT 30 Jun 91*

[Text] A ranking British trade official will come to Taiwan next month for talks as Britain's concerns deepen over the growing trade imbalance between the two countries in favor of the ROC [Republic of China].

John Midway, a chief of Britain's Department of Trade and Industry, will meet with officials of the Board of Foreign Trade and other government agencies here on 29 July, said the Anglo-Taiwan Trade Committee. At the core of their talks will be Taiwan's further market opening related to liquor and transportation, as well as banking and insurance.

The British Government, in spite of a lack of diplomatic ties between London and Taipei, has decided to enhance the coming talks to the official level in order to solve the existing trade issues concerning the two countries, an official with the committee explained.

The official said: A blooming trade deficit with the ROC has caused Britain to lift Taiwan as a priority export target, and British firms are being encouraged to increase sales to the island.

### **Government To Step Up Economic Relations With Europe**

*OW3006165591 Taipei Voice of Free China in English  
0200 GMT 30 Jun 91*

[Text] The Economics Ministry plans on introducing the six-year national development plan to European nations in order to attract European business and import European technology and strengthen ROC [Republic of China]-European technology cooperation. In order to further diversify market and strengthen ROC's economic relations with European countries as well as effectively deal with the single European market which begins next year, the board of foreign trade has made the special plan. The primary focus of the plan is to attract European investment to the ROC by means of the six-year national development plan and work to upgrade the level of industry here.

**United Democratic Alliance Views 1991 Elections**

91CM0374A Hong Kong CHENG MING

[CONTENDING] in Chinese No 161, 1 Mar 91

pp 35-37

[Article by Hsieh Hsiao (6200 4607): "The Hong Kong United Democratic Alliance Plans for the Three-tiered Elections"]

[Excerpts] [passage omitted] On 23 January this reporter visited He Chun-jen [0149 0193 0088] and Yang Sen [2799 2773], deputy chairmen of the Hong Kong United Democratic Alliance. They candidly answered questions regarding the problems and prospects of democratic factions in the 1991 direct elections. [passage omitted]

The following is a transcript of the visit:

Hsieh Hsiao (hereafter referred to as Hsieh): In this year's three-tiered elections, the number of people signing up to participate in the district assembly elections is not the same as it was for the last session. How can this attitude of indifference be explained? Will the United Democratic Alliance pay attention to the district assembly elections?

Yang Sen (hereafter referred to as Yang): This is primarily related to the fact that the position of district assemblies has gradually declined. In the last several elections, people have discovered that the district assemblies do not have any power to influence government policy, and hence they have lost enthusiasm for these assemblies. The United Democratic Alliance, however, will still attach importance to this election. We understand the importance that grassroots levels attach to the elections, and we have 80 assemblymen signed up to participate in the elections. This year, assembly elections in March will be followed closely by elections for the municipal administration and the district municipal administration in May, and then by Legislative Council [Legco] elections in September. If we do well in district assembly elections, this may give voters confidence in us, and they may support us in entering the Legco.

Hsieh: There are some reports that the leftists are not very confident when it comes to the Legco elections, and that they are therefore making an all-out effort to launch an attack at the grassroots level. Do you predict that you will have a fierce competition with candidates supported by the Chinese?

Yang: The electoral districts for the district assemblies are very small, and many of our candidates will not be able to confront leftist candidates head on.

He Chun-jen (hereafter referred to as He): These people often use an independent identity when competing in the elections, and the Chinese coloring is not very pronounced. They also cannot publicize their own background in a high-handed manner. For this reason, factional struggles will not be too distinct in district

assembly elections, and the strength of a candidate will be viewed as his own strength and his relations with the district.

Hsieh: Please tell us what concrete plan of attack the Hong Kong United Democratic Alliance has for this year's three-tiered elections?

Yang: First of all, we will handle the district assembly elections well, and then we will participate in the municipal administration and district municipal administration elections. Finally, we will spare no effort in the Legco elections. Because these three elections are all interrelated, we will pay great attention to all of them. At the same time, we will also consult with the other democratic groups, because we do not want to compete in the same electoral districts.

The Legco will have 18 directly elected seats; we are prepared to compete for 13 or so. At present it is very difficult to make a final prediction as to how many we will obtain. We can only do our best. We also very much want to know whether the citizens of Hong Kong will endorse our political orientation since 4 June, which involves struggling for a high level of autonomy for Hong Kong and protecting human rights and freedom. The elections of this year should answer this question.

These elections should be very important for Hong Kong. If voter turnout is very low, this will give the Chinese government reason to believe that the Hong Kong people are not paying much attention to direct elections. Thus the voting rate will bear close watching.

He: I hope that through these elections people will study the principles of democratic competition. When one goes all out in a contest and then loses, it is necessary to be poised and accept the fact. If one competes by using illegitimate methods, then even if one wins, winning has no meaning. We absolutely do not encourage this approach, while we do consider participation to be a very important matter.

Yang: The leftist trade unions are also very active in this election. They have more than 70 people in all competing in the elections, many more than in past years. They are sparing no effort in entering the elections. This is being done mainly to consider their effect on the 1991 elections and in preparation for elections in 1995.

He: I feel that leftist participation is a good thing, and I hope that they go all out in entering. The most important thing is that everyone competes fairly, and accepts the rules of the game; who wins or loses is of less importance. If the rules of the game are not respected, there will be no way for democracy to develop.

Hsieh: I have noticed that recently it seems as though the leftist groups have published articles directed against the United Democratic Alliance on a daily basis. Some words and phrases have already amounted to personal attacks. How do you view this public opinion offensive?

Yang: We have not been surprised by this; it is to be expected. Of course, both the Chinese and the leftists do not wish the democratic groups to win too many seats. Under this major premise, the offensive cannot help but affect the image of the democratic groups. It will isolate some groups and result in hitting out at one faction while drawing in another. To have a united front and to attack has in fact been the consistent approach of the Chinese side.

He: Since 4 June this type of approach by the Chinese side has become even more apparent. Originally it was very simple, because a high-level, left-leaning line gained ground, and lower-level policies would certainly become even more extreme. Because the Chinese view the United Democratic Alliance as the focal point for an attack on the opposition and view us as related in a certain way to the "base of subversion" and "forward position," the attacks against us are even fiercer. Using this method to deal with the democratic groups has a certain effect on Hong Kong's high degree of autonomy, and it progressively attacks the confidence of the Hong Kong people. The effect of the words is not necessarily very significant, because people's minds are clear as to the meaning.

Hsieh: I just talked about the question of hitting out at one group and drawing in another. Do you have the feeling that there is the threat of a split among the groups?

Yang: There is no particularly great threat. Because the democratic groups have cooperated for several decades, they have a deep understanding of each other. Even if they hold differing views, there will be no widening contradictions. Everyone is aware that the Chinese side will use the tactic of trying to divide the groups, and hence they will increase their vigilance.

He: I also agree with this view. Many of the areas mutually accepted and supported by the democratic groups have been arrived at through discussions of differences and through competition. Looking at the overall situation, the democratic groups still find themselves in a united atmosphere and environment for participating in the 1991 elections. But organizations outside the democratic groups, such as neighborhood and village affairs groups, will be very easily brought into a single line by pro-Chinese forces; through facilitation by the Chinese, they will become a unified front. We face this situation. We believe that the competition will also be splendid, and that there will basically be two camps pitted against each other.

Hsieh: There are indications that the Chinese are not only attracting grassroots mass organizations like neighborhood and village affairs groups, but that they have also adopted a friendly attitude towards such "old-line" democratic group organizations as the Meeting Point and the Association for Democracy and People's Livelihood. Does this puzzle you?

Yang: We expected the Chinese to use united front methods. Recently, WEN WEI PO held a symposium and invited the Meeting Point, the Association to Promote Democracy, and the Association for Democracy and People's Livelihood to participate; they did not invite the United Democratic Alliance. This was clearly an effort to isolate us and concentrate the attack on us. But as I mentioned, the cooperation between the democratic groups is a long-standing one. Everyone understands one another, and hence it will not be possible to intensify contradictions between the groups. In addition, this is an excessive approach. Will Hong Kong's citizens be willing to accept it? I believe that as long as we hold to our own purpose, then even if the Chinese side does not approach us in friendly manner, we will obtain the support of Hong Kong's citizens.

He: At present, four of the democratic group organizations (the United Democratic Alliance, the Meeting Point, the Association to Promote Democracy, and the Association for Democracy and People's Livelihood—editor) stand unanimous and steadfast. Some organizations, on the premise of an unchanging stance, believe that it is possible to have an effect on the Chinese through dialogue, and for this reason their public speeches try to reduce irritations as much as possible. This is also not surprising.

Hsieh: Many important and responsible people within the United Democratic Alliance, including you two, are at the same time the backbone elements of the Branch Association. This role is confusing. Do you think it could affect your support among voters?

Yang: The United Democratic Alliance believes that because Hong Kong and the mainland have different systems, and because Hong Kong has a high degree of autonomy, we must have principles and make our opinions known to the Chinese government, and we must struggle appropriately for the interests of the Hong Kong people. If everything is done in step with the Chinese Communists, and there is no so-called one country, two systems, we must preserve one of the systems within the one country, two systems. We must certainly persist in our basic principles. The Chinese side cannot understand these principles very well. Therefore the United Democratic Alliance will have a dialogue with the Chinese, and cooperate and struggle with them.

At the same time, the people of Hong Kong are Chinese, and they also have the right to participate and comment on the affairs of China. We participate in the Branch Association as individuals, and in fact do not go against the goals of the United Democratic Alliance. The United Democratic Alliance believes that the people of Hong Kong are Chinese, and that they can comment on and participate in China's affairs. We use our personal identities to participate in Branch Association work and in fact comment on the affairs of China, paying close attention to human rights within the country. I feel that these two roles do not conflict, because human rights

have no national boundaries. For example, Iraq's invasion of Kuwait gave rise to a war in the Middle East; there were people who said that it was a question of oil, but we also can say that it was an issue of human rights. Take the events of 4 June, when the Chinese government massacred the students, for example. Western societies also placed sanctions on China because of the human rights issue.

He: The roles played by these two organizations is different, and hence their focus of attention is also different. The goals of the Branch Association include the desire to promote democracy within the country, improve human rights, and demands for the release of pro-democracy students. The goals of the United Democratic Alliance are to devote itself to establishing a democratic Hong Kong through participation in the government. These two goals are by no means conflicting. Looking at the long-term, these two goals have the effect of "helping each other"! As a Hong Kong citizen and a Chinese, I have the right to express my opinions and convictions. This right cannot be expropriated because I am in the United Democratic Alliance!

Thus I am not worried about voting problems. In reality, many citizens support the Branch Association because they believe in democracy, and they also support the United Democratic Alliance. People who support the United Democratic Alliance also understand why China needs democracy. [passage omitted]

### **Mainland Money Pours Into Hong Kong**

*OW2306015391 Beijing XINHUA in English  
0143 GMT 23 Jun 91*

[Text] Beijing, June 23 (XINHUA)—Business giants from the mainland of China are pouring money into Hong Kong, establishing footholds in every corner of this 1,062-square-kilometer territory, the Beijing-based ECONOMIC DAILY reported.

Through merger, share purchases and new set-ups, the mainlanders have expanded their business in Hong Kong from trade and banking to leasing, insurance, tourism, transportation, manufacturing, advertising and wholesale and retail sales. The mainlanders have invested roughly 10 billion U.S. dollars in the territory and

established several thousand businesses, it said. Since 1979, it said, mainland business giants as the China International Trust and Investment Corporation (CITIC) and Everbright Industrial Corporation had joined the "Hong Kong rush." By 1989, the mainland companies had altogether invested three billion Hong Kong dollars (413 million U.S. dollars) in the territory's manufacturing sector, accounting for well over 10 percent of the total investment, local and overseas, in Hong Kong since 1949.

The turn-over of the mainland's contract engineering projects and labor service in Hong Kong is 15 to 18 percent of the total. Between 1979 and 1989, the mainland handled 1,201 such projects in Hong Kong with a total business turn-over of 1.5 billion U.S. dollars. This created 30,000 jobs for local residents and people from Macao, it reported.

Business turn-over of the Bank of China group, which now has 313 branches and more than 14,000 employees, grew by over 82 percent; its deposits increased 14 times and lending 22-fold. The fixed assets and Hong Kong dollar deposits with the group and two other mainland banks in the territory together made up 20 percent of Hong Kong's total, putting the group in second place, just after Hong Kong and Shanghai Banking Corporation.

The China Resources (Holdings) Co Ltd has established more than 150 enterprises with its own fleet, port, warehouses and department stores.

In 1989, this corporation generated a total turn-over of 50 billion Hong Kong dollars (about 6.5 billion U.S. dollars), and supplying up to 30 percent of the total oil products needed on the Hong Kong market.

In the same year, the China Resources (Holdings) Co Ltd and other mainland firms handled 150 billion Hong Kong dollars (about 19.5 billion U.S. dollars) worth of foreign trade, accounting for 13 percent of the territory's total.

The China Travel Service (HK) Ltd has set up 13 branches and more than 20 companies, handling more than two million tourists a year. The newcomer, CITIC, already has 20 billion Hong Kong dollars worth of fixed assets (about 2.6 billion U.S. dollars) in the territory.

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